



Luther S. Olsen

State Senator

14th District

TO: Senate Committee on Education
FROM: Senator Luther Olsen
DATE: Thursday, September 14, 2017
SUBJECT: Testimony for Senate Bill 383

Thank you members of the Senate Committee on Education for holding a hearing and allowing me to testify in support of Senate Bill 383.

Currently, school districts and choice schools received their state aid in four quarterly payments. They receive 15% in September, 25% in December and March, and the remaining 35% in June. Current law also allows for school districts to opt to receive their funding in 10 equal payments from September to June, as long as they pay a portion of their state aid back to the state to recover lost interest due to more frequent payments.

This legislation would create a 12 month distribution schedule with equal payments with no penalty to the school districts for receiving their state aid in even increments. This model will provide more local control to school and school districts by allowing them more flexibility in how they budget and manage their cash flow.

These payments are used for schools to meet their operational needs and by using the quarterly model for distribution it can end up causing additional costs for school districts to cover up front. With the current model some school districts have even had to resort to taking out short term loans to cover their costs until their next payment from the state comes in. Senate Bill 383 will help to put more money in the classroom and stop the short term borrowing which wastes state aid that should be going to our children's education.

Again, thank you members of the Senate Education Committee for holding a hearing today. I ask for your support and am available to answer any questions that you may have.

Rob Hutton

STATE REPRESENTATIVE • 13TH ASSEMBLY DISTRICT

September 14, 2017

To: The Senate Committee on Education
From: Rep. Rob Hutton
Re: Senate Bill 383

Testimony of Rep. Rob Hutton in Support of Senate Bill 383

Mr. Chairman and members of the committee, thank you for giving Senate Bill 383 a public hearing. Last session, a broad group of education experts came together to discuss areas of agreement to improve all schools so that we can better serve the children of Wisconsin. This group developed the "Wisconsin Succeeds" agenda, which is a compilation of many ideas and strategies to move Wisconsin's education system forward for everyone. SB 383 is aimed at addressing one of the major policy items, creating 12 equal payments of state aid to schools.

Under current law, school districts receive 4 payments of state aid, one at 15% in September, 25% in December, 25% in March, and 35% in June. All together by the end of the school year the school has received 100% of their state aid. Current law also allows for school districts to opt to receive 10 equal payments from September to June, instead of quarterly payments, but must compensate the state for any lost interest, therefore penalizing that school district. SB 383 requires the state to pay schools in 12 equal payments, once per month, over the school year. It does not require the school district to compensate the state for lost interest and removes this provision from the 10 month model should school districts prefer that method.

This legislation provides greater budget control and encourages school districts to model good private sector practices. SB 383 will help to alleviate the problem of short term borrowing that many of our school districts face in order to meet payroll, since their teachers are paid monthly instead of quarterly. While these loans are often repaid quickly, school districts still lose money to the interest that is charged on the loan. One recent compilation has shown that this costs public school districts \$3.8 million annually. This is \$3.8 million that could be going to the classroom instead of paying interest on loans.

Thank you again for the opportunity to testify in support of SB 383. I am happy to answer any questions you may have about the legislation.

Senate Committee on Education
September 14, 2017

Wisconsin Department of Public Instruction
Testimony for Information on Senate Bill 383

Thank you Chairmen Olsen and members of the Committee for the opportunity to be here today to testify on Senate Bill 383 (SB 383). The Department of Public Instruction (Department) thanks the Committee for engaging in the discussion around school funding. As you know, our school finance system is extremely complex and while we support this proposal conceptually we have some questions and concerns regarding its implementation. With me today is Tricia Collins, Director of School Management Services. We will provide a short analysis of the proposal and discuss some of the questions surrounding technical implementation you may want to consider as you move forward.

Current Law

Payments to Public School Districts

Under current law, equalization aid is distributed to school districts according to the following statutory payment schedule: 15 percent on the third Monday in September; 25 percent on the first Monday in December; 25 percent on the fourth Monday in March; and 35 percent 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, and proportionately reduces the percentages described above for the current school year to reflect this delayed payment.

Current law provides that the 15 percent aid payment to school districts in September is based on the total certified aid payment from the previous fiscal year. When general aid payments are certified for the current fiscal year on October 15, the payments in December through June are reconciled to account for differences between the previous fiscal year actual aid payments and the current fiscal year certified aid amounts.

The June aid payment is the most complicated one as it must be adjusted for nearly every district to account for open enrollment aid transfers, pupils participating in the Racine and statewide Parental Choice programs, and resident pupils participating in the Special Needs Scholarship Program (SNSP). Finally, a district's June aid payment would be further reduced if the district incurred a revenue limit penalty (for levying above the limit) and for resident pupils participating in the Youth Challenge Academy program. The Department withholds all or a portion of a district's aid entitlement from the September, December, and/or March payments if the adjustments that are applied to the June aid payment are projected to exceed the June payment amount (a situation that applies to low-aided school districts).

School districts have long had the option under current law to request that the Department pay an amount equal to 10 percent of the school district's total aid entitlement in monthly installments, from September through June. If a school district chooses this option, it must pay to the Department 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 the four installment method, as determined by the Department of Administration

(DOA). These payments would lapse back to the state's general fund, to offset the foregone interest earnings to the state. There are no school districts that have elected to receive aid payments under this option.

Senate Bill 383

Payments to Public School Districts

Under the bill, for the payments from July to October, the aid payment for each district would be estimated based upon the total aid paid in the previous year. Upon certification of general aid payments for the current fiscal year on October 15, the Department would be required to reconcile the November aid payment to account for difference between the previous fiscal year actual aid payments and the current fiscal year certified aid amounts. Providing a larger portion of a district's aid entitlement earlier in the fiscal year (one third under the bill, compare to 15 percent under current law) would result in larger adjustments to the November payment.

The requirement that all payments be issued on the first Friday of each month (with the exception of the July payment, which may be made on any day of that month) could be problematic for the November payment. The Department requires sufficient time to calculate the monthly installment amounts based on the October 15 aid certification amount, the necessary adjustments to reconcile for the July through October payments (based on prior year aid), and to process the payments. This would be happening while the Department is also regularly updating the prepopulated revenue limit worksheets to reflect current year pupil count adjustments, revenue limit exemptions, etc., and providing technical assistance to school districts as they calculate their district specific revenue limit and allowable levy, which must be set by November 1.

In addition to the November aid payment, the June aid payments may be further adjusted for open enrollment aid transfers, Racine and statewide Parental Choice program aid reductions (as a result of 2015 Wisconsin Act 55), and SNSP aid reductions (as a result of 2017 Wisconsin Act 36). However, the June aid payment may not be large enough to cover those aid reductions, since the June aid payment would be one-twelfth of the district's total aid entitlement under the bill, rather than 35 percent, as under current law. The most probable solution may be to extend the current practice of withholding aid from payments made earlier in the year, to more school districts, to account for the June aid adjustments (and for some districts, possibly also the reconciliation of the November payment). Combined with the additional work associated with calculating, processing, and monitoring monthly payments, this would require a significant increase in workload for the Department.

Providing a larger portion of a district's aid entitlement earlier in the fiscal year (one third under the bill, compared to 15 percent under current law) would have the effect of reducing the interest earnings that would have accrued to the state's general fund, had the school district's aid been distributed under the current law quarterly payment schedule. While an official fiscal estimate had not yet been provided by DOA as of the writing of this analysis, the loss to the state's general fund from foregone interest earnings could be as much as \$9 million annually.

Current Law

Payments to Independent Charter Schools and Private Schools (Parental Choice Programs and SNSP)

For payments made to independent charter schools, and private schools participating in a private parental choice and/or SNSP school, payments are made on the basis of Full Time Equivalent (FTE) pupil counts.

Under current law, independent charter schools receive aid payments of 25 percent in September, December, February, and June. The September payment is based on estimates of current year enrollment, while the December payment is based on third Friday count enrollment in September; the February and June payments are based on an average of the third Friday count in September and second Friday count in January. Payments are reconciled each quarter to ensure each school receives the full percentage due for each student. In addition, payments are reconciled based on audited enrollments.

Private schools participating in one of the state's parental choice programs and the SNSP receive aid payments of 25 percent in September, November, February, and May. Per the Department's administrative rules, the September payment is based on a report of pupils enrolled in the school as of September 1. The November payment is reconciled so as to provide 50 percent of the payment amount, based on the number of pupils enrolled on the third Friday in September (less the September payment). Finally, the February and May payments are 25 percent each and based on the amount for each eligible pupil on the second Friday count in January. Payments are also adjusted based on audited enrollments.

SB 383

Payments to Independent Charter Schools and Private Schools (Parental Choice Programs and SNSP)

Other than for the first school year in which payments are received, the Department would be required to pay operators of independent charter schools and private schools participating in a choice program or the SNSP in twelve **equal** monthly installments. Under current law, aid payments to these schools are based on current year enrollments. Under the bill, the July and August payments would be based on prior year enrollments and the subsequent monthly payments would need to be reconciled to account for differences in enrollment in the prior year compared to the current year. It should be noted that this practice would conflict with the use of the word "equal" in the bill language, because monthly payments will not likely be of equal amounts, when payments are reconciled to account for changes in enrollment from the prior year to the current year. It should also be noted that the sections of the bill relating to the calculation of the monthly aid payment to independent charter schools, the bill uses the word "attendance," which has a different meaning from the word "enrollment."

For the first school year in which an operator of an independent charter school or private school participating in a choice program receives a payment from the Department, the Department must pay the annual amount due in ten equal monthly installments, beginning in September. The language in the bill pertaining to private schools participating in the SNSP refers to "the first year in which a child attends a private school under this section" [Section 2 of the bill]. Presumably, the bill was drafted in this manner, because pupils using a SNSP voucher are likely to be attending an existing private school and it is not likely that a new private school would be formed for the express purpose of participating in the SNSP (so the private school would be past its first year of operation). The language could possibly be interpreted to mean that every time a child begins enrollment with a private school under the SNSP, the payments would be made in 10, rather than 12, monthly installments (even if the school had a different pupil enrolled under the SNSP the prior year). However, this issue could be addressed via administrative rule.

Short Term Borrowing

The statewide total cost of short-term borrowing for all schools districts in the 2015-16 school year was \$3.8 million. While the Department cannot predict school district behavior, it seems unlikely that the bill would eliminate the need for short-term borrowing by all school districts. For example, school districts that receive very little aid would not benefit from this bill and may still need to use short term borrowing in certain months. Thus, the total savings to all school districts as a result of the bill is likely to be less than the \$3.8 million cost figure for 2015-16.

While it is possible that some school districts may be able to benefit from eliminating the interest costs associated with short-term borrowing as a result of this bill, many other school districts may not receive

the same benefit. For example, districts that are property wealthy and generate relatively little state aid in the formula may still need to short-term borrow to cover district expenditures until property taxes are paid out by municipalities in August.

Fiscal Estimate

Department of Public Instruction

The bill would result in a significant workload increase for the Department, requiring the Department to calculate and process 12 monthly installments and related reconciliations and adjustments for state aid to all 422 public school districts, all independent charter schools (20 in 2016-17), all private schools participating in one of the state's three private school parental choice programs (209 in 2016-17 and 237 estimated for 2017-18), and all schools participating in the SNSP (26 in 2016-17 and 29 estimated for 2017-18).

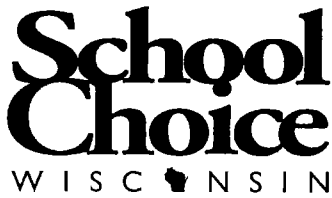
Additional work would be required not only to calculate the monthly payments, but also related to: reconciliation of payments within the year; calculation and application of aid adjustments related to Open Enrollment transfers, and aid deductions for districts with resident incoming choice pupils in the Wisconsin and Racine parental choice program, over a far more complex payment schedule; processing and monitoring of monthly payments; responding to what would likely be many inquiries from school districts, private schools, and independent charter schools, etc.

The Department estimates that the additional work load would require 2.0 FTE additional employees: 1.0 FTE Accountant-Senior for the School Financial Services Team (for public school district payments) and 1.0 FTE Accountant-Senior for the School Management Services Team (for independent charter schools, and for private schools participating in a parental choice program or the SNSP).

Department of Administration

State investment fund earnings are estimated to decrease by approximately \$16.5 Million annually when school aid payments are made monthly rather than under the current payment structure. Additionally, under current law, school aid payments are expected to result in a negative general fund cash balance in August 2018 (state fiscal year 2018-19) only. Under the bill, it is estimated that negative cash balances would occur in the general fund during nine (9) months of the next fiscal year. As a result, the amount of interfund borrowing and therefore interest payable by the general fund to other state funds would increase under the bill by an indeterminate amount.

The Department would like to thank the others for continuing to work with us as we sort through some of the intricacies of school financing and how they interact with this proposal. We are happy to answer any questions you may have at this time.



350 Bishops Way, Suite 104 Brookfield, WI 53005 • Phone 414 319 9160

Date: September 14, 2017
To: Senate Committee on Education
From: Jim Bender, President, School Choice Wisconsin
RE: Testimony on SB 383

Chairman Olsen and committee members, thank you for taking testimony on Senate Bill 383. This legislation was the result of work by a group of school leaders from both public and private schools across the state. This group is called Wisconsin Succeeds. The group's goal is simple – create solutions that would benefit all students in Wisconsin.

Senate Bill 383 would change the state payment schedule for all publicly-funded schools and students to a monthly basis. This simple change would reduce short-term borrowing costs and free up restricted sections of reserve accounts.

As vendor payments and employee payroll go out the door on a net 30 basis, creating a monthly state aid schedule makes perfect sense. This change will result in significant resources that are currently used for cash flow management being transferred directly into the classroom.

We support the legislation before you and would gladly answer any questions you may have.

Thank you for considering this legislation.



School Administrators Alliance

Representing the Interests of Wisconsin School Children

TO: Senate Committee on Education
FROM: John Forester, Executive Director
DATE: September 14, 2017
RE: SB 383 – Payment of State Aid

The School Administrators Alliance (SAA) supports Senate Bill 383, relating to the payment of state school aid and the payment to charter schools and private schools participating in a choice program or in the Special Needs Scholarship Program.

SB 383 changes the timing of state aid payments to school districts to 12 equal monthly payments. It also changes the timing of payments to independent charter schools and private schools participating in a choice program or in the Special Needs Scholarship Program to 12 equal monthly installments.

The SAA supports this bill because it will improve cash flow and lower short-term borrowing costs for most Wisconsin school districts. The current school revenue distribution schedule in Wisconsin is end-loaded, with most of a school district's revenue arriving, in the form of local property taxes and state aid, more than six months after the beginning of the fiscal year (July 1). For example, under current law, a school district receives 15 percent of its state general aid in September, 25 percent in December, 25 percent in March, and 35 percent in June after the conclusion of the school year and close to the end of the fiscal year. Other factors contributing to school district cash flow challenges include:

- Some general aid is paid to districts in July after the end of the fiscal year.
- Districts receive no general aid in August, October, November and May.
- Districts receive no property tax revenue for the first half of the fiscal year (July through December).
- The \$1.003 billion in school levy credits and first dollar credits are received by districts in August after the fiscal year is over.

On June 15th of this year, the Assembly Committee on Education heard Assembly Bill 77 which would even out the four general aid payments to 25 percent each. At that hearing, the Chief Financial Officer for the Appleton Area School District testified that the district currently borrowed close to \$20 million annually to meet cash flow needs and that AB 77 would cut the district's short-term borrowing costs approximately in half. We believe that SB 383 would have at least a similar impact on reducing districts' short-term borrowing costs. And these savings could then be repurposed for the classroom or other annual budget uses.

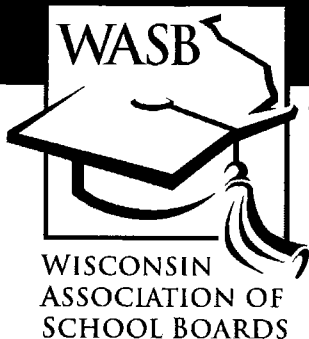
Some argue that passage of this bill will automatically mean that school districts will: 1) discontinue plans to build a larger fund balance, or 2) reduce the amount of fund balance they are carrying. Some districts may be able to do that and we applaud the fiscal flexibility afforded under the bill. However, Wisconsin has 422 school districts. Each district operates under unique fiscal and educational circumstances and has unique reasons for building its financial cash reserves. Therefore, blanket statements or general recommendations cannot possibly cover all the unique situations that necessitate a larger or smaller district fund balance.

Allow me to share just a couple of examples. School districts that receive little or no state general aid will still need to carry significant cash reserves to meet their cash flow needs, even if SB 383 is adopted. In addition, for the more than 60 percent of school districts that are currently in declining enrollment, sufficient cash reserves allow these districts to better manage the decline.

In closing, I would like to share with the committee several reasons, other than cash flow purposes, why sufficient cash reserves are so important to Wisconsin school districts.

- A district's financial cash reserves must be adequate to protect the short-term and long-term educational opportunities for that community's children against some type of financial disruption.
- Provides a way to set money aside for planned and unplanned expenses such as repairs (roof), maintenance (new heating systems etc.), catastrophic (or near catastrophic) events, or major purchases (buses, textbooks, new educational programs).
- Sufficient cash reserves insulate districts against revenue loss and instability. Uncertainty about state and federal funding and the myriad problems posed to school districts in declining enrollment are among the biggest reasons that districts add to their fund balances.
- The establishment of sufficient and stable district cash reserves is considered a prudent business practice that will result in higher credit ratings and lower district borrowing costs.

Thank you for your consideration of our views. If you should have any questions on our thoughts on SB 383, please call me at 608-242-1370.



"Leadership in Public School Governance"

JOHN H. ASHLEY, EXECUTIVE DIRECTOR

122 W. WASHINGTON AVENUE, MADISON, WI 53703
PHONE: 608-257-2622 FAX: 608-257-8386

TO: Members, Senate Committee on Education
FROM: Dan Rossmiller, WASB Government Relations Director
DATE: September 14, 2017
RE: **SUPPORT for SENATE BILL 383**, relating to the payment of state aid to school districts and payments to operators of independent charter schools and private schools participating in a choice program or the Special Needs Scholarship Program.

The Wisconsin Association of School Boards (WASB), on behalf of all 422 public school boards in the state of Wisconsin, **supports** Senate Bill 383, although we have some concerns.

Senate Bill 383 would change the timing of state general equalization aid payments to public school districts and of state payments to operators of independent charter schools, private schools participating in a voucher program, and private schools participating in the Special Needs voucher program.

Under current law, a school district receives 15 percent of its state general aid in September, 25 percent in December, 25 percent in March and 35 percent in June. Under the bill, school districts would receive their state general aid allotment in 12 equal monthly payments.

The WASB **supports** SB 383 *in concept* but has questions about the meaning of "equal monthly payments" given that general aid amounts are not currently certified until October 15 and thus the July, August and September payments could in theory not be the same as those made in October and thereafter. Other adjustments to aid payments may result from open enrollment of pupils into or out of a district or from resident pupils enrolling in voucher schools or certain independent charter schools. We also note that the bill has a substantial fiscal note as it would shift a significant amount of GPR payments to schools earlier in the state's fiscal year.

The WASB also wants to emphasize that although this bill would improve the cash flow of many districts that receive substantial amounts of general aid, it will not alleviate the need for many districts to maintain adequate fund balances to lessen short-term borrowing costs and maintain operations. This is particularly true of districts that receive little or no state general aid. They receive the bulk of their funding from property taxes, which are handed over in just three installments—in January, February and August—requiring these districts to maintain adequate reserves to meet cash flow needs.

We also note that aid payments to public schools are based on prior year data while payments to private schools that participate in the voucher program are based on current year data. We understand that the Department of Public Instruction (DPI) has raised a number of issues about the way payments to private voucher schools would be handled under the bill, particularly for private schools that are new to the voucher program. This means the current system is more responsive to changes in private voucher school enrollment and already more closely matches state payments to enrollment in private schools than in public schools.

Note: Existing WASB Resolution 2.20 (d) supports an aid payment schedule that provides for payment of equalization aids in (ten) installments of 10 percent each in August, September, January and February, and 15 percent each in October, November, December and June.



Senate Bill 383

Relating to: the payment of state aid to school districts and payments to operators of independent charter schools and private schools participating in a choice program or the Special Needs Scholarship Program. Under current law, the Department of Public Instruction pays annual amounts due to operators of independent charter schools and to private schools participating in a choice program or the Special Needs Scholarship Program in four equal quarterly installments. These installments are paid in September, November, February, and May. Under the bill, other than for the first school year in which payments are received, DPI pays operators of independent charter schools and private schools participating in a choice program or the Special Needs Scholarship Program in 12 equal monthly installments. For the first school year in which an operator of an independent charter school or private school participating in a choice program receives a payment from DPI and for the first year in which a pupil participates in the Special Needs Scholarship Program, DPI pays the annual amount due in ten equal monthly installments.

Thank you for the opportunity to present at this hearing regarding Senate Bill 383 regarding payment of state aid to school districts, payments to operators of independent charter schools and private schools participating in a choice program or Special Needs Scholarship Program.

I would be present today however; Seton Catholic Schools is in the opening of school events with our faculty and school leaders and need to be present in Milwaukee for the launch of the school year.

We support Senate Bill 383 and applaud the effort underway to show public schools, charter schools and choice schools finding common ground and improve how schools can be managed cross sector and more financially efficient

I served as the superintendent of the Greendale School District leading the team that created, maintained and am proud to say still is, a district known for producing outstanding student achievement, financial management and engagement as well as a number of prominent school and education leaders for 16 years. Then from 2012 to late 2015. I spent three years with Schools That Can Milwaukee working cross sector in MPS, Charter and Choice programs to create high performing schools in Milwaukee.

Since January 2016 I am Chief Academic Officer of the Seton Catholic Schools – a collaborative network of 13 k-8 choice schools – Seton Catholic schools the largest private management organization of Catholic k-8 schools in the nation now with nearly 400 faculty and staff, 3,100 students growing to 26 schools and close to 500 teachers and 10,000 kids shortly. We are working every day to bring high quality Catholic Education, talent development and operational efficiency to parish schools as part of a Performance Management organization.

This legislation is good for all schools, charter, public, and choice and it is a clear signal of the importance of creating successful schools regardless of sector rather than politics and advocacy of one sector over another.

We support this legislation for the following reasons:

- It provides a concrete demonstrable project of the shared interests public, charter and choice schools have in working together for financial efficiency and focus on dollars to the classrooms. We need to find common ground around the interest of students and families and this bill provides it. Thank you to the