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*Testimony before the Assembly Committee on State Affairs
State Senator André Jacque
April 28, 2021*

Chairman Swearingen and Members of the Assembly Committee on State Affairs,

Thank you for holding this hearing and the opportunity to testify before you today in support of Assembly Bill 162, bi-partisan legislation equalizing quarterly school aid payment distribution.

One area where choice schools, public schools and CESA's have found agreement is the need to reform the K-12 funding distribution model.

Currently, school districts and choice schools receive 4 payments per school year at various levels to meet their operational needs. They receive state aid in payments of 15% in September, 25% in December and March, and 35% in June. Current law also allows for school districts to opt to receive their funding in 10 equal payments from September to June. However, no school district currently uses this option as they would be required to forfeit a portion of their state aid for the state to recover lost interest due to more frequent payments. Instead, they use the quarterly model which creates additional costs for schools districts.

Assembly Bill 162 will increase the percentage of equalization aid distributed each September by 2 points each school year, and decreases the percentage of equalization aid distributed in June by 2 points each school year, until the 2025-26 school year, at which time the amount of equalization aid distributed in both September and June will be 25 percent. The result is that equalization aid will be paid to school districts in four equal installments beginning in the 2025-26 school year.

This model provides further assistance to schools and school districts to manage their cash flow and budgetary needs. In some instances, due to the current quarterly model, school districts have to take out short term loans to fulfill their payments. Once they receive their next quarterly payment they are able to repay the loan but they incur additional cost due to the interest of the loan. Further this model provides opportunities for schools to rethink their cash reserves, to consider self-insurance models, to rethink legacy model and infuse innovation. Ultimately, this helps put more cash in the classroom and stops short term borrowing that wastes dollars that could be going to our children's education.

This proposal passed both Senate and Assembly Education Committees with unanimous 9-0 and 14-0 votes last session and was formally supported by the Association of Wisconsin School Administrators, Wisconsin Rural Schools Alliance, Wisconsin Association of School Boards, Wisconsin Association of School Business Officials, Wisconsin Association of School District Administrators, Wisconsin Association of School Personnel Administrators, and Wisconsin Council for Administrators of Special Services.

Thank you for your consideration of Assembly Bill 162.

Assembly Committee on State Affairs
April 28, 2021

**Department of Public Instruction Testimony
for Information on Assembly Bill 162**

The Department of Public Instruction (DPI) appreciates the opportunity to provide Chairman Swearingen and members of the committee this written testimony on Assembly Bill 162 (AB 162), which would impact equalization aid payments.

Background

The two major sources of Wisconsin school district revenue are general school aids—equalization, special adjustment, and integration transfer aids—and property taxes.

Under current law, DPI pays general school aids to school districts in four quarterly installments: 15 percent in September, 25 percent in December and March, and the remaining 35 percent in June. The September payment of equalization aid is based upon the prior year's final eligibility, while the other payments are based upon the DPI October 15 certification of general school aids and include both equalization and special adjustment aids. Any integration transfer aid is paid in June. \$75 million of the June amount is paid in July as a deferred payment, which school districts record as a June 30 revenue.

The other major source of school district revenue, property taxes, is received on a very different schedule. Most funds come in with the January and February settlements from municipalities to school districts. A small portion is received in March as part of the settlement between counties and the state. Finally, districts receive any property taxes due, but not yet received, in the August county settlements. There are additional monthly settlements between March and August where municipalities have adopted the installment option under Wis. Stat. § 74.12.

Analysis

Assembly Bill 162 would shift payments from the June installment back to September over the next five years until all four payment percentages are equal, with school districts receiving less in June and more in September than under current law.

The impact of the two revenue sources, general school aids and property taxes, on school district cash flow depends in large part on the school district's position in the general school aid formula, since general state aids offset property taxes under the revenue limit. A highly aided district would see a cash flow impact from Assembly Bill 162, while a district receiving little or no aid (and thus largely reliant upon property taxes) would not be affected.

Some districts rely more on short-term borrowing than others, depending in large part on how much they receive between general school aids or property taxes and the amount of fund balance available to meet their cash flow needs. To the extent that the Assembly Bill 162 would reduce the need for short-term borrowing, districts may save on interest charges and related borrowing costs, but the amount would vary among districts and cannot be projected by DPI.

A further impact of Assembly Bill 162 relates to open enrollment. Transfer payments between resident and nonresident districts are made in June. A district with more students leaving the district than entering under open enrollment has a net liability withheld from its general school aids. If the expected June payment is greater than the district's expected open enrollment liability, DPI withholds funds first from earlier payments of general school aids, and then other state school aids due to the district. Reducing the June payment by 10 percent will increase open enrollment withholdings from earlier payments, but specific district impacts will vary and are indeterminate at this time.

If you have questions about this testimony, please contact Grant Huber, Legislative Liaison, at grant.huber@dpi.wi.gov.



THE SCHOOL DISTRICT OF NORTH FOND DU LAC

1115 Thurke Avenue
North Fond du Lac, WI 54937
(920) 929-3750

Wednesday, April 28th, 2021

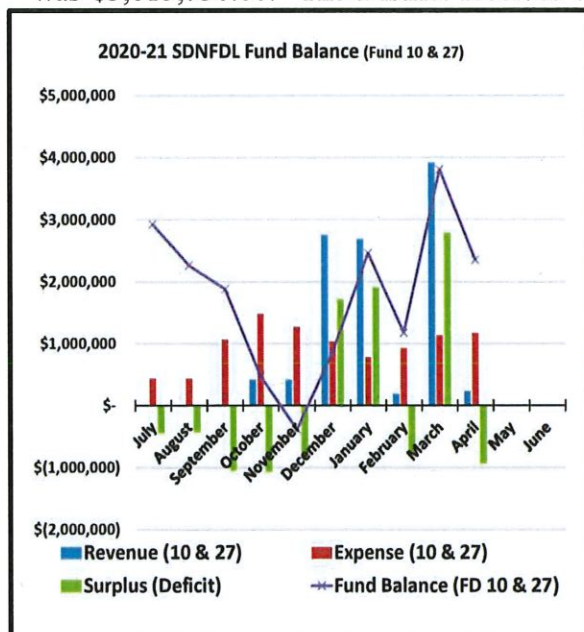
Testimony of Support for AB 162 (companion SB 177)

Dear Assembly State Affairs Committee Members,

Living and serving in the state of Wisconsin is a blessing and gift – Public Education in Wisconsin is strong; the past investment in public education is appreciated and has been and will be used judiciously. On behalf of superintendents, thank you for your past support of public education and continual focus on how we can better provide resources for every child, every day. This year has been a herculean challenge, but the light is at the end of the tunnel!

My name is Aaron Sadoff and I am proud to serve the School District of North Fond du Lac as superintendent; we are a growing district of more than 1,450 students (up 170 over the last 4 years), the largest employer in our community (with a budget of over \$20,000,000) employing over 200 staff; and a partner with local business and educational institutions to make our community stronger. Our student body is made up of 18% Special Education students; 11% English Language Learner students; 52.8% of our students qualify for the Federal Free and Reduced Lunch Program and a 100% of students that deserve the best education we can afford, develop and implement.

I am here to give testimony to support AB 162 (a companion to SB 177 – similar bills were considered in 2018 – SB 415 and AB 461), addressing the timing of equalization aid. The School District of North Fond du Lac is financially strong. We have a total budget of over \$20,000,000, increasing enrollment and a strong Fund Balance of roughly 20% (based on our two annual, largest funds, Fund 10 general/discretionary and Fund 27 special education). The 2020 – 2021 beginning Fund Balance was \$3,615,736.66. The District receives state aid of approximately 65% – 70% of our revenue authority, which is \$11,920,506.00 for the 2020 – 2021 school year.



Graph Revenue and Expenditures with Fund Balance

This bill addresses an issue that results from state equalization aid being distributed at 15% in September, 25% in December, 25% in March and then 35% at the end of the fiscal year in June. This discrepancy causes the largest strain in the months of November and December when expenditures are eating away at fund balance due to not getting local tax revenue yet and having to fund 25% of the years expenditures with only 15% of equalized aid. This is what triggers short-term borrowing and bringing additional costs to Districts. Our District has been fortunate to not have to short-term borrow yet, but that will change for next year if things remain status quo. This past year we held on to bills and have a \$750,000 line of credit with a local bank just in case.

Here is data of what the proposed changes in would do to the aid for our District:

SD NFDL Aid Impact of AB 162

Based on current year numbers (2021 – 2022)

State Aide Amount – \$11,920,506.00

Fund Balance - \$3,615,736.66– Down below \$0 late November – Early December (see chart on previous page) – strategy hold bills this year and maintain line of credit – short-term borrowing will occur in November 2021 if the law does not change.

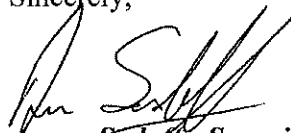
% of State Aide	\$\$	Increase over 15%	September - June Payments
15%	\$1,788,076		Current SEPT – JUNE
35%	\$4,172,177		
17%	\$2,026,486	\$238,410	Proposed 2021 – 2022
33%	\$3,933,767		
19%	\$2,264,896	\$476,820	Proposed 2022 – 2023
31%	\$3,695,357		
21%	\$2,503,306	\$715,230	Proposed 2023 – 2024
29%	\$3,456,947		
23%	\$2,741,716	\$953,640	Proposed 2024 – 2025
27%	\$3,218,536		
25%	\$2,980,126	\$1,192,051	Proposed 2025 – 2026

As proposed, by these numbers, the 2025 – 2026 school year, the District would receive almost \$1.2 million more in state equalization aid at the beginning of the school year, helping to pay expenditures and possibly allowing for resources to be freed up to do one time investments and improvements. **More consistent revenue would mean changing the level of Fund Balance needed (for higher aided districts) to avoid short-term borrowing. These resources could be used for many onetime costs, including professional development, seed money for partial self-funded health insurance or facility improvements.**

According to the Department of Administration Fiscal Bureau projections (as reported in 2018 the last time this bill was introduced), this change may cost just over \$11,000,000 in 2025-2026 due to lost interest revenue. Although I do not have specific data, I believe this amount is incredibly lower than the interest District are paying for short-term borrowing, allowing for more money to go directly to student achievement and growth.

In closing, budgeting for public education is like “nailing Jell-O to a wall,” there are so many uncertainties and our budgets do not get approved until the end of October, which is a quarter through the fiscal year. Any help to give more consistent, equal aid payments would be helpful for districts that need that revenue sources to pay expenditures. Also, no districts or schools (public or private) would be negatively impacted by this bill. Thank you for your efforts to continue supporting our most precious natural resource, our children.

Sincerely,



Aaron Sadoff - Superintendent

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School Administrators Alliance

Representing the Interests of Wisconsin School Children

TO: Assembly Committee on State Affairs
FROM: John Forester, Executive Director
DATE: April 28, 2021
RE: AB 162 – Payment of State Equalization Aid

The School Administrators Alliance (SAA) supports Assembly Bill 162, relating to the payment of state equalization aid to school districts. The SAA supports this bill because it will improve cash flow and lower short-term borrowing costs for most Wisconsin school districts. And these savings could then be repurposed for the classroom or other annual budget uses. We thank the authors for bringing this bill forward.

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 \$1.09 billion in school levy tax credits are received by districts in August after the fiscal year is over.

AB 162 addresses these district cash flow challenges by paying equalization aid to school districts in four equal installments of 25% each after a five-year phase-in. The five-year phase-in, as well as addressing this issue in a low interest rate environment like we have now, will serve to limit the state fiscal impact of adopting this bill.

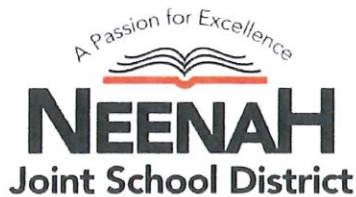
Some argue that passage of this bill will automatically mean that school districts will: 1) discontinue plans to build a larger fund balance, or 2) reduce the amount of fund balance they are carrying. Some districts may be able to do that, and we applaud the fiscal flexibility afforded under the bill. However, Wisconsin has 421 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 the bill 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 regarding our thoughts on AB 162, please call me at 608-242-1370.



410 South Commercial Street · Neenah, WI 54956 · Tel: (920) 751-6800 · Fax: (920) 751-6809

April 28, 2021

RE: Assembly Bill 162

Dear Honorable Senate Education Committee Members:

Thank you for your commitment and dedication on behalf of PreK-12 public education funding as you move through the current budget process. I appreciate your commitment to securing the resources needed to provide a high quality education that will ensure that all children in Wisconsin succeed and become leaders in our future. Thank you for your service on behalf of all Wisconsin children and for your continued support of excellence in education.

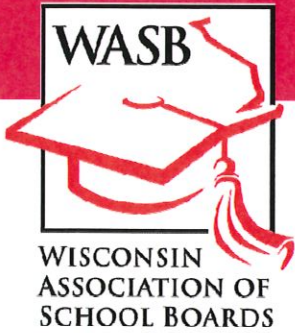
The Neenah Joint School District serves approximately 6,800 students and is located between Appleton and Oshkosh. As the superintendent of the Neenah Joint School District, I am asking that you consider a shift in the distribution of aid and support this bill as presented with an end goal to distribute equalization aid in four equal installments (25% each) in September, December, March, and June. The recommended phase-in schedule that increases the September payment by two percentage points and decreases the June payment by two percentage points each year for five years will provide additional support to districts while at the same time being sensitive to the state's shift in distribution.

In the best interest of our students, the Neenah Joint School District opened for in-person learning on September 1 and has continued to be open as we understand that this is the greatest benefit for our students and community. As our state works to recover from the pandemic, we appreciate your focus on education and supporting our most valuable asset, our children.

We sincerely thank you for your service and for all that you do for our great state of Wisconsin.

Best regards,

Dr. Mary Pfeiffer, District Administrator
Neenah Joint School District



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JOHN H. ASHLEY, EXECUTIVE DIRECTOR

TO: Members, Assembly Committee on State Affairs
FROM: Dan Rossmiller, WASB Government Relations Director
DATE: April 28, 2021
RE: SUPPORT for ASSEMBLY BILL 162, relating to the timing of equalization aid payments to school districts.

The Wisconsin Association of School Boards (WASB) is a voluntary membership association representing all 421 of Wisconsin's locally elected public school boards.

The WASB **supports** Assembly Bill 162, a simple and common-sense bill which stems from the recommendations of the Blue Ribbon Commission on School Funding.

Under current law, the DPI pays state general 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. One consequence of this is that many districts, especially those that receive substantial amounts of equalization aid, find their cash flow is troublesome in November and early December before the second aid installment is received and before any property tax revenues are received.

Assembly Bill 162 would change the aid payment system to provide for four equal installments of 25 percent each. The bill would not affect the total amount of 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 would simply decrease the percentage paid in June by 10 percent over a five-year phase-in period and increase the percentage paid in September by 10 percent over a five-year phase-in period so districts would receive more of their aid earlier in the school year.

When the change is fully phased in in 2025-26, districts that receive a substantial portion of their state support through equalization aid will get an even delivery of such aid. With the receipt of this aid moved earlier in the school year, we believe the bill will improve many districts' cash flows, allowing school boards to avoid or lessen the need for short-term borrowing. Lessening short-term borrowing costs means more resources can be put toward educational programming rather than interest payments. This might also allow many boards to maintain a slightly smaller fund balance. For districts that receive little or no equalization aid, the bill will have a proportionately smaller positive impact on finances, but it will not be harmful in any way.

WASB members adopted a resolution in January 2020 calling for the payment of equalization aids in four equal installments (25% each) in September, December, March, and June and phasing in the new schedule by increasing the September payment by two percentage points and decreasing the June payment by two percentage points each year for five years. That exactly matches what this bill would do.

For all of the above reasons, the WASB encourages you to support Assembly Bill 162.

April 28, 2021

Assembly Committee on State Affairs

Dear Honorable Committee Chair and Members:

This testimony is in support of AB 162 Relating to: the timing of equalization aid payments to school districts, sponsored by Representative Jeremy Thiesfeldt and co-sponsored by Senator Andre Jacque. The Senate version of this bill was presented to the Senate Education Committee last week and I gave testimony in support at that time as well.

The bill would change the way equalization aid is paid to school districts to provide for four (4) equal installments of 25% each. Currently, there are four (4) unequal payments made to districts including 15% in September, and 35 % in June right before the school year and fiscal year ends. The current system of equalization aid payment makes it difficult for districts to meet financial obligations in the second quarter, often forcing the need for costly short-term borrowing to meet these obligations.

Assembly Bill 162 matches the recommendations of the Blue Ribbon Commission on School Funding. It also matches a WASB resolution that our board submitted and that was approved at the 2020 Delegate Assembly. That language is now in WASB Resolution **2.20 (d) Equalization Aid Payment Schedule**. It reads:

“The WASB supports the payment of equalization aids in four equal installments (25% each) in September, December, March, and June. Phase in the new schedule as follows: Increase the September payment by two percentage points and decrease the June payment by two percentage points each year for five years.” (1991-16)(2020-4)

The bill would change the way equalization aid is paid to provide for four (4) equal installments of 25% each to all districts to alleviate costly short-term borrowing and allow districts to be better able to budget and meet financial obligations across the school year.

I ask you to vote in support of this bill to save tax payer dollars and as it has bi-partisan support.

Thank you for service and for your continued support of high quality education for all Wisconsin children.

Best regards,

Lauri Asbury
Board of Education, Vice President & Legislative Committee Chair
Neenah Joint School District
Lauri.asbury@neenah.k12.wi.us