TO: Senate Committee on Education
FROM: John Forester, Executive Director
DATE: October 3, 2019
RE: AB 461/SB 415 – Payment of State Equalization Aid

The School Administrators Alliance (SAA) supports Assembly Bill 461 and Senate Bill 415, 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 461/SB 415 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 461/SB 415, please call me at 608-242-1370.