

Senate Committee on Education
September 14, 2017

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

Thank you Chairmen Thiesfeldt 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.

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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.

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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.