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IMPACT OF CHANGING THE SCHOOL PAYMENT SCHEDULE

CURRENT LAW

Under current law, school districts receive annual State School Fund payments on the following schedule: 16.67% on August 15, 8.33% on the 15th of each month from October through April and 25% on May 15. There is no payment in July, September or June of each fiscal year. The current State School Fund payment schedule was adopted by the 1981 Legislature. The Legislatively adopted State School Fund appropriation for the 2002-03 fiscal year is \$2,530 million. 8.33% of the 2002-03 appropriation is \$210.8 million.

SMOOTHING THE PAYMENT SCHEDULE

The simplest smoothing mechanism would be to shift to a 12-month payment schedule with equal 8.33% payments each month of the year. There are two reasons for considering smoothing the payment schedule in the current budget environment.

- Helping school districts transition to a lower State School Fund payment in 2002-03 by reducing payments at the end of the fiscal year and speeding up payments in the 2003-04 fiscal year. This would give school districts the maximum allowable time before resources are reduced in the current fiscal year while making cash available shortly after the new biennium begins.
- Help the state manage its cash flow through the fiscal year. Currently, the 25% May payment (over \$600 million in 2002-03) requires a large outlay when receipts to the General Fund are relatively low due to income tax refunds. Equal monthly payments spread over the year would bring expenditures more in line with the revenue flow.

IMPLEMENTATION OF THE CHANGE

Implementing a new payment schedule on January 1, 2003 would have the effect of spreading the May 15 payment over three months: May, June and July. The July payment would fall in the next biennium. It would therefore reduce 2001-03 State School Fund expenditures by \$210.8 million. The July 15, 2003 payment would be 8.33% of the 2003-04 State School Fund appropriation. This appropriation amount would be determined by the 2003 Legislature. The new payment schedule would distribute 25% of the 2003-04 State School Fund appropriation in the first three months of the fiscal year compared to 16.67% of the payment under current law.

The impact of the change on the timing of payments is shown in Table 1. State School Fund revenue is only part of school operating revenue. These other categories may change to partially offset a State School Fund reduction.

STATE SCHOOL FUND PAYMENT SHIFT			
STATE SCHOOL FUND PAYMENT (MILLIONS of \$)			
		\$211 MILLION REDUCTION	
2002-03	CURRENT LAW	UNDER CURRENT LAW	UNDER PAYMENT SHIFT
JULY	0	0	0
AUGUST	422	386	420
SEPT	0	0	0
OCT	211	193	211
NOV	211	193	211
DEC	211	193	211
JAN	211	193	211
FEB	211	193	211
MARCH	211	193	211
APRIL	211	193	211
MAY	633	582	211
JUNE	0	0	211
TOTAL	2530	2319	2319
2003-04			
JULY	0	0	219
AUGUST	439	439	219
SEPT	0	0	219
OCT	219	219	219
NOV	219	219	219
DEC	219	219	219
JAN	219	219	219
FEB	219	219	219
MARCH	219	219	219
APRIL	219	219	219
MAY	658	658	219
JUNE	0	0	219
TOTAL*	2630	2630	2630
* Based on assumed State School Fund growth of 4% from 2002-03 Legislatively approved level.			

IMPLEMENTATION ISSUES

Using the payment schedule to help mitigate the effects of a 2002-03 reduction in the State School Fund raises some implementation issues for Oregon's 198 school districts:

- Cash versus accrual accounting. District accounting for the new July 15 payment could affect when districts count the revenue for budgetary purposes. Unlike the state biennial system, school district budgets must balance on an annual basis.
- District cash flow position. Districts with a low level of cash reserves would have more difficulty adapting to the delay in payments.

- Short-term borrowing needs. Districts cannot extend short-term borrowing across fiscal years. If cash flow problems arise as a result of the new payment system, districts would be limited by local budget laws.

Substantial lead-time should help districts better prepare for any change in the payment schedule.