Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2019 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **19-1260/1**	Introduction Number **SB-206**

Description
determining shared costs and the secondary cost ceiling for the purpose of general equalization aids for school districts

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☐ Decrease Costs

Local:
☐ No Local Government Costs
☒ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities
   ☐ Counties ☐ Others
   ☒ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DPI 6/13/2019

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Description determining shared costs and the secondary cost ceiling for the purpose of general equalization aids for school districts		

Assumptions Used in Arriving at Fiscal Estimate

This bill makes two changes within the general equalization aid formula for state aid to school districts:
First, the bill changes the definition of the secondary cost ceiling within the equalization aid formula from 90 to 100 percent of the statewide average shared cost per member.

Second, under this bill, expenditures from either a school district's general fund or debt service fund that are authorized by an operating or capital referendum that is held after the date on which this bill becomes effective would be excluded from the school district's shared cost, if the exclusion of those expenditures results in a greater amount of equalization aid for the district.

As drafted, the bill requires the exclusion of the current year referendum-derived levy amount from shared costs for use in the general/equalization aid formula. DPI is required to certify general/equalization aid by October 15th each year, using prior year (audited) data for district membership, shared costs, and equalized property values. Districts are required to set their levies by November 1st (and to certify to the appropriate municipality by November 10th). As such, the current year levies are not available to DPI (to apply as an adjustment to shared costs) in time for the October 15th aid certification. Thus, a technical correction to change the reference from "current year" to "prior year" would have to be required to effectively implement the bill. See the technical memo attached to this fiscal estimate.

This estimate is written assuming that technical change described above were in place.

Shared Costs and Equalization Aid (Current Law)

Shared costs are one of the factors used to calculate general school aids and refers to school district expenditures that are aidable through the equalization formula. A school district's shared cost is the sum of the school district's aidable expenditures from its general fund and its debt service fund. It is determined by subtracting certain deductible receipts (which includes state categorical aid, federal aid, and local non-property tax revenue) from the gross cost of a school district's general fund for operating costs and its debt service fund for expenditures for long-term debt retirement. Thus, shared costs (aidable costs) reflect school district expenditures that were paid for with local property taxes and state general/equalization aid. The state's general/equalization aid formula uses prior year shared costs to calculate aid in a given year (in this respect, it is a cost-reimbursement aid).

The general/equalization aid formula ("aid formula") reimburses school districts for prior year shared costs, based on the district's ability to pay, as measured by the relative amount of property value per member. The level at which a district's shared costs are aided depends on the district's "position" in the formula, with respect to the amount of shared costs per member and the relative property value per member.

Aid is provided at three levels of shared costs – primary (first $1,000 per member), secondary (above $1,000 and up to 90% of the statewide average shared cost per member), and tertiary (all costs above the secondary level). The proportion of a district's shared costs that are aided at each level in the aid formula is a function of relative property wealth: the higher a district's property value per member (relative to other districts in the state), the lower the proportion of shared costs that will be covered with general equalization aid. Conversely, districts with lower relative property value per member receive state aid at a higher rate of their shared costs than relatively wealthier districts. The portion of shared costs that are aided under the formula is less at the tertiary level than at the secondary level, which in turn is less than at the primary level.

The first change under this bill is to increase the upper limit of the secondary level, from 90 to 100 percent of the statewide average shared costs per member, which would shift a portion of a districts' share costs from the tertiary level, down to the secondary level. This translates into a greater share of districts' costs being aided at the secondary level, which is aided at a higher proportion than shared costs at the tertiary level. However, because total amount provided for general equalization aid would not change under the bill, the bill would result in a redistribution of aid among districts.

The second change under this bill is to exclude the expenditures from a school district's general fund or debt service fund that are authorized by an operating or capital referendum (held after the date on which this bill becomes effective) from the school district's shared cost, if the exclusion of those expenditures results in a greater amount of equalization aid for the district.

For districts with higher than average property values per member, the aid formula will generate a negative aid amount at the tertiary level. Negative aid is also generated at the secondary level for those districts with very high property value per member, and at the primary level for the most property-wealthy districts (those with property values in excess of $1.93 million per member). While negative aid at the tertiary level reduces a district's secondary level aid, as long as the formula generates positive primary aid, the formula ensures that the district receives the primary aid calculated by the formula (referred to as the "primary guarantee").

By excluding referenda-derived revenue from shared costs, as proposed under the bill, a negatively-aided school district would receive more state equalization aid, compared to current law, as a result of passing a referendum to increase operating and/or capital expenditures; this is the result of fewer costs being subject to negative aid at the tertiary level. The bill permits the exclusion for shared costs only for districts that would see an increase in aid as a result of the exclusion. That is, districts that have referendum-derived levy authority but that are not negatively aided would not have the exclusion applied to their shared costs.

Because the state general equalization aid appropriation is a sum certain appropriation (and the bill does not increase the appropriation), there would be a redistribution of aid as a result of the bill, as compared to current law. An increase in state general equalization aid for the districts that would be subject to the exclusion under the bill would be offset by decreases in state aid for those districts with property wealth per member below the state average, and that are not subject to the exclusion under the bill, compared to current law.

Local Fiscal Impact:

The general impact of this bill would be to shift aid within the general equalization aid formula; all other factors being equal, the districts with higher than average property values/member, and that successfully pass referenda, would be the greatest beneficiaries of this bill, due to the exclusion of referenda-derived expenditures from the shared costs calculation for those districts.

Providing a reasonable estimate the impact of this bill on each districts' general aid, beginning in FY21 (as provided in the bill), is not possible, because the department cannot accurately project all the factors that go into the aid formula for each district for future years. The impact of the bill could be simulated based on the current year (FY19) general aid amounts to get an idea of which districts would be impacted. However, such a simulation would be for demonstrative purposes only; one could not reasonably assume that the simulation results would absolutely hold true for general aid for future year.

School Property Taxes

State general equalization aid is received under a district's revenue limit. Thus, an increase in state general equalization aid results in a reduction in districts' property taxes, all other things being equal. Conversely, a decrease in state general/equalization aid likely results in higher property taxes, as compared to current law. As compared to current law, the bill would result in a reduction in property taxes in negatively-aided (higher property value) districts that pass referenda, and a potential increase in property taxes in districts that are not negatively aided (i.e., lower property value districts). Actual school levy impacts would depend on whether school boards choose to fully (or partially) utilize the allowable revenue authority provided under revenue limits.

State Fiscal Impact:

Because the bill does not change appropriations for state general equalization aid, there would be no impact on the state's general fund as a result of this bill.

Long-Range Fiscal Implications

The bill makes the exclusion from shared costs first effective for referenda that are passed after the effective date of the bill. The first year for which a district could obtain additional revenue authority via referendum would be for the 2020-21 school year (even if a referendum were passed in a February or April 2020 election, the first opportunity to levy would be the fall of 2020 for the 2020-21 school year). As noted previously, the provisions of the bill could be implemented only if prior year (as opposed to current year) referendum-derived levy amounts are excluded from shared costs. Assuming a technical correction in the bill, to refer to prior year referendum-derived levy amounts, the first year that the bill would impact the general equalization aid calculations would be the 2021-22 school year (based on 2020-21 data).

Additionally, because the bill's provisions would be effective for districts that have passed a referendum after the effective date of the bill, the exclusion of referendum-derived levy amounts from shared costs would not apply to a district that has already obtained authority to levy in future years (i.e., from a multi-year referenda passed prior to the bill's effective date). For example, a district that passed a five year non-recurring referendum in the fall of 2017, to levy in each of the 2017-18 through 2021-22 school years, would not be subject to the exclusion under the bill, even if the exclusion would result in an increase in state general/equalization aid for that district.