

Fiscal Estimate Narratives

DPI 6/13/2019

LRB Number	19-1276/1	Introduction Number	SB-207	Estimate Type	Original
Description supplemental state aid for consolidated school districts and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates a new aid program for certain consolidated school districts, for which the consolidation that created the consolidated school district takes effect on or after July 1, 2020. To be eligible for aid, the consolidated school district's maximum allowable levy rate must be greater than the lowest levy rate of the school districts that were consolidated to create the school district (underlying school districts).

In general, the levy rate of a school district is the total amount of property taxes levied by the school district divided by the school district's equalized value.

Under the bill, for eligible consolidated school districts, in the first school year following the consolidation, the consolidated school district is entitled to aid in an amount equal to the consolidated school district's equalized value multiplied by the difference between the maximum allowable levy rate of the consolidated school district and the lowest levy rate of the underlying school districts (base aid amount).

This aid would be phased out over five years. In the second school year following the consolidation, the consolidated school district is entitled to aid in an amount equal to 80 percent of the base aid amount, then 60, 40, and 20 percent, in the third, fourth, and fifth years (respectively) following the consolidation. Thus, the aid would be provided for a maximum of five years upon consolidation.

The aid would be received as a general aid, under the district's revenue limit. Thus, the new aid would serve as property tax relief for taxpayers in the district, rather than as a source of additional spending capacity for the consolidated school district.

Under the bill, the appropriation for supplemental aid for consolidated districts is created as a sum-sufficient appropriation (i.e., all eligible districts would be guaranteed full payment of aid, no proration).

Note that this bill does not eliminate the 2017 Act 59 provisions for consolidation aid that will affect district consolidations that occur on or after July 1, 2019 (more information on these provisions is included below).

Recent Consolidations

The school boards of three K-8 districts (Herman #22, Neosho J3, and Rubicon J6) voted in July, 2015, to consolidate into one district, called the Herman-Neosho-Rubicon School District. The consolidation became effective on July 1, 2016 (consolidation aid provisions first effective for 2016-17 school year).

The school boards of Friess Lake and Richfield J1, both K-8 districts, voted in July, 2017, to consolidate into a new district, Holy Hill Area School District. The consolidation became effective on July 1, 2018 (consolidation aid provisions first effective for 2018-19 school year).

The department can use data from the recent consolidations to simulate the impact on this bill. This simulation is not perfect, because the levy rates for the consolidated schools are the result of actual general aid payments, the treatment of consolidation aid under revenue limits, and resulting tax levies, all of which were calculated pursuant to current law provisions. Under current law, the consolidation "benefit" (general aid resulting from the inflators in the formula and the base hold harmless guarantee) are excluded from general aid for purposes of determining the district's maximum allowable controlled revenues. If these district consolidations had taken place on or after July 1, 2019, their resulting general aid, allowable controlled revenues, and resulting tax levy rates would have been different.

The department estimates that, if these district consolidations had taken place on or after July 1, 2020 (as provided under the bill), HHASD would have been eligible for the proposed supplemental consolidation aid, while the HNRSD would not have been eligible. The HHASD aid eligibility in the initial year would have been \$391,230 (under this simulation), and then it would decrease by a fifth of that amount each year through year five. The details of this estimate are included in the attachment to this fiscal estimate.

Additionally, if these consolidations had become effective on or after July 1, 2020, the consolidated districts would have been eligible for consolidation aid in the amount of \$150/pupil, rather than receiving consolidation benefit (aid) outside of the revenue limit and instead of receiving a recurring (base-building) revenue limit adjustment equal to 75 percent of the consolidation benefit in the previous year.

Local Fiscal Effect: Indeterminate.

This bill has the potential to provide additional tax relief in situations in which the consolidation of two or more school districts into one district results in a higher tax levy rate than was the place prior to the consolidation (in at least one of the underlying districts). The degree to which tax relief would occur depends on future consolidations and the specific circumstances of those districts that consolidate.

State Fiscal Effect: Indeterminate.

The bill creates a sum-sufficient appropriation, providing aid to eligible districts in the full amount of eligibility. This would be a draw on the state's general fund, the magnitude of which would depend on future consolidations and the specific circumstances of the districts that consolidate. The bill would not create additional operational costs for the department.

Long-Range Fiscal Implications

Potential for increased expenditures from the state's general fund for eligible consolidated school districts (cannot be projected for future years). Amounts would likely vary from year to year, as newly consolidated districts become eligible, and as consolidation aid begins to taper or end for other consolidated districts.

Consolidation Aid Adjustments under Current Law

The 2017 Act 59 provisions related to consolidation aid (\$150 per pupil) will replace current law provisions for aid to consolidated districts. Under current law, consolidated districts receive the following amounts within the general equalization aid formula:

- In the school year in which a school district consolidation takes effect and in each of the subsequent four school years, the consolidated school district's state general school aids cannot be less than the total aggregate state general school aids received by the consolidating school districts in the school year prior to the consolidation. The statutes specify that these additional aid payments are to be paid from the general equalization aids appropriation, as part of special adjustment aid.
- Additionally, in computing general equalization aid for districts that consolidated **prior to July 1, 2019**, in the school year in which the consolidation takes effect and in each of the subsequent four school years, the primary and secondary ceiling cost amounts for shared costs are multiplied by 1.15 and rounded to the next lowest dollar. The same is true for a consolidated district's primary, secondary, and tertiary guaranteed valuations per member. (The multiplier increased, from 1.10 to 1.15, effective with aid distributed in FY10, under 2009 Act 28).
- Any additional state aid generated by these provisions for a consolidated district is received outside of revenue limits (referred to as "consolidation benefit").
- Under 2013 Act 20, the consolidation benefit within the general aid formula was extended for two additional years, though it is tapered, to avoid a "cliff" effect for consolidated districts. This provision affected districts that had already consolidated as of the effective date of that bill.
- Subsequently, 2015 Act 55 replaced the provisions for consolidation aid in the sixth and seventh years with a recurring revenue limit adjustment equal to 75 percent of the consolidation benefit (received outside of revenue limits) in the previous year. This provision was first applicable to school districts that consolidated effective in the 2009-10 school year.

Consolidation aid payment provisions then changed substantially under 2017 Act 59 (the 2017-19 biennial budget). For districts that consolidate **on or after July 1, 2019**, the provisions in place currently for districts that have already consolidated will be replaced, so as to provide consolidation aid in the form of a categorical aid equal to \$150 per revenue limit member ["per pupil"] attending school in the consolidated district in the school year in which the consolidation takes place and each of the subsequent four school years.

- A district's current three-year rolling average revenue limit membership will be used to calculate this new consolidation aid payment.
- Consolidation aid will be tapered, providing 50 percent and 25 percent, in the sixth and seventh years (respectively) of consolidation, of the amount received in the fifth year.
- This consolidation will be received outside the revenue limits, representing additional spending capacity for districts that receive it. The appropriation to pay this new consolidation aid is also sum-sufficient (no proration).

While the consolidation aid provisions in current law relating to higher cost ceilings and guarantees under the equalization aid formula, as well as related revenue limit adjustments, will not apply to consolidations that become effective on or after July 1, 2019, the five-year base hold harmless guarantee, paid as special adjustment aid, will remain in law for future district consolidations.

ATTACHMENT TO FISCAL ESTIMATE for AB 223 [LRB 2964/1] / SB 207 [LRB 1276/1]

Prepared by Erin Fath, DPI (608-266-2804)

June 11, 2019

Simulation: Applying provisions of AB 223 / SB 207, and provisions related to aid to consolidated school districts under 2017 Act 59, to recent school district consolidations.

Holy Hill Area School District (HHASD)		
Underlying districts (Base Year, FY18):	<i>Actual Levy Rates</i>	
	Friess Lake	0.00422
	Richfield J1	0.00583
HHASD (Consolidation Year, FY19)		0.00534
	<u>Current Law</u>	<u>July 1, 2019 Law</u>
Consolidation benefit exclusion:	\$ 760,612	\$ -
Total levy (assume levy to max):	\$ 5,472,682	\$ 4,712,070
Equalized Valuation [^]	\$ 1,024,732,396	\$ 1,024,732,396
Resulting levy rate	0.00534	0.00460
Difference b/w HHASD & lowest FY18 levy rate (not < 0):		0.00038
Supplemental Consolidation Aid (SCA=Diff x EV) - <i>reduces levy</i> :		\$ 391,230
<i>As a percent of the pre-SCA levy amount:</i>		8.30%
HHASD - FY19 members*:	525	
	<u>CL - Consolidation Benefit</u>	<u>July 1, 2019 - \$150/pupil</u>
Consolidation aid <u>outside</u> of revenue limit**:	\$ 760,612	\$ 78,750
Recurring revenue limit exemption (75%, 6th year)	\$ 570,459	\$ -

[^]Assume that the equalized valuation would be the October values that are used as part of the revenue limit calculation, as the bill specifies "... the consolidated school district's equalized valuation for the school year in which the consolidation takes effect."

*Under ss. 117.08 (6) and 117.09 (6), consolidation aid is equal to \$150 multiplied by district's current year revenue limit membership as used for the Per Pupil Aid calculation, under s. 115.437 (1).

**For this analysis, the consolidation benefit is assumed to be comprised of the additional aid resulting from inflating cost ceilings and guarantee valuations within the equalization aid formula. However, consolidated districts are guaranteed (for first five years of consolidation) general aid in an amount at least equal to the sum of general aid received by the underlying districts in the year immediately preceding the consolidation. This "base guarantee" is part of special adjustment aid in the general aid formula. The amount of special adjustment aid required to bring a consolidated district to the base guarantee level is also excluded from the district's general aid amount for purposes of determining the allowable controlled revenues (i.e., consolidation benefit, effectively received outside the revenue limit).

ATTACHMENT TO FISCAL ESTIMATE for AB 223 [LRB 2964/1] / SB 207 [LRB 1276/1]

Prepared by Erin Fath, DPI (608-266-2804)

June 11, 2019

Herman-Neosho-Rubicon (HNRSD)		
Underlying districts (Base Year, FY16):	Actual Levy Rates	
Herman #22	0.00698	
Neosho J3	0.00631	
Rubicon J6	0.00614	
HNRSD (Consolidation Year, FY17)	0.00612	
	Current Law	July 1, 2019 Law
Consolidation benefit exclusion:	\$ 456,760	\$ -
Total levy (assume levy to max):	\$ 2,424,254	\$ 1,967,494
Equalized Valuation [^]	\$ 396,496,661	\$ 396,496,661
Resulting levy rate	0.00611	0.00496
Difference b/w HNRSD & lowest FY16 levy rate (not < 0):		0.00000
Supplemental Consolidation Aid (SCA=Diff x EV) - reduces levy:		\$ -
As a percent of the pre-SCA levy amount:		0.00%
HNRSD - FY17 members*	364	
	CL - Consolidation Benefit	July 1, 2019 - \$150/pupil
Consolidation aid outside of revenue limit**:	\$ 456,760	\$ 54,600
Recurring revenue limit exemption (75%, 6th year)	\$ 342,570	\$ -

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*Under ss. 117.08 (6) and 117.09 (6), consolidation aid is equal to \$150 multiplied by district's current year revenue limit membership as used for the Per Pupil Aid calculation, under s. 115.437 (1).

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