

**1999 DRAFTING REQUEST**

**Assembly Amendment (AA-AB133)**

Received: 05/21/99

Received By: grantpr

Wanted: As time permits

Identical to LRB:

For: Legislative Fiscal Bureau

By/Representing: Hardy

This file may be shown to any legislator: NO

Drafter: grantpr

May Contact:

Alt. Drafters:

Subject: Education - school finance

Extra Copies: MJL

**Pre Topic:**

LFB:.....Hardy -

**Topic:**

Special adjustment aid

**Instructions:**

See Attached

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	grantpr 05/21/99	gilfokm 05/24/99		_____			
/1			martykr 05/24/99	_____	lrb_docadmin 05/24/99		

FE Sent For:

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1?	grantpr	1-5-24-99 KMG	for 5/24	me 5/ Rm 24			

FE Sent For:

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## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 20, 1999

Joint Committee on Finance

Paper #761

### Special Adjustment Aid (DPI -- General School Aid)

[LFB 1999-01 Budget Summary: Page 483, #4]

#### CURRENT LAW

General school aids consist of: (a) equalization aid; (b) integration (Chapter 220) aid; and (c) special adjustment or hold harmless aid. In total, these aids represent nearly 90% of the funds provided as state aid to school districts. In 1998-99, approximately \$3,560.1 million is provided for general school aids, of which \$79.9 million is utilized for integration aid and \$6.2 million for special adjustment aid. As a result, a net amount of \$3,474.0 million is available to fund the equalization aid formula. For most school districts, equalization aid is the only form of general school aids that is received.

The state provides special adjustment aid to school districts to cushion the effect of reductions in general school aid from one year to the next, which is commonly referred to as a "hold harmless" payment. In addition, consolidated school districts are guaranteed no less than the total amount of general school aid received by the separate school districts in the year prior to consolidation, which is paid as special adjustment aid. These types of special adjustment aid are fully funded from the equalization aid appropriation.

Under the special adjustment aid provided as a "hold harmless," a school district is guaranteed a specific percentage of its prior year's payment of general school aid, including equalization, integration and special adjustment aid, thus limiting a school district's annual decline in general school aid. The hold harmless aid insures that a district's general school aid payment is either: (a) no less than 85% of its prior year level; or (b) the prior year payment minus \$1,000,000. In the case of districts qualifying for aid under both hold harmless levels, the statute specifies that such districts are only eligible for the percentage-based hold harmless. In 1998-99, 13 school districts are eligible for special adjustment aid in the amount of \$6.18 million.

## GOVERNOR

Provide that if a school district qualifies for special adjustment aid under each of the current law methods of calculation, then the school district would receive the greater of the two amounts, rather than the percentage based amount as under current law. Specify that this provision would first apply to the distribution of school aid in the 1999-00 school year.

## DISCUSSION POINTS

1. The Governor's budget recommendation is intended to address an error that occurred in the 1993-95 budget bill, which has remained uncorrected since that time. In the 1993-95 budget bill, it was intended that school districts would receive the greater of the special adjustment aid calculated using the 85% rule or the \$1,000,000 rule. However, as passed by the Legislature, the budget bill provision would have specified that school districts receive the lesser of those two amounts. At the request of the members of the Conference Committee that negotiated the final form of the budget bill, the Governor vetoed parts of this provision to its current form. As a result, under the 1993-95 budget, as vetoed, if a school district qualifies for aid under both the 85% rule and the \$1,000,000 rule, it would receive the amount calculated using the 85% rule. By giving precedence to the 85% rule, odd results can occur. For example, a school district could actually qualify for much more special adjustment aid if its equalization aid had been slightly higher, creating the opposite effect of what one would expect.

2. In administering special adjustment aid, the Department of Public Instruction has calculated aid as intended by the 1993 Legislature, rather than using the law established as a result of the error and partially corrective veto. The Department's program for calculating special adjustment aid would give school districts the greater of the amount generated under the two rules and would not use the 85% rule if it would generate a lesser aid amount than the \$1,000,000 rule. Although many school districts have received special adjustment aid over the last six years, there is only one instance where a school district qualified under both rules and the \$1,000,000 rule generated more aid than the 85% rule. This occurred in 1998-99, when the Waukesha School District received significantly less general school aids (\$32.4 million) than the \$38.3 million it received in 1997-98. The 85% rule generates approximately \$160,000 in special adjustment aid for Waukesha, while the \$1,000,000 rule generates \$4.9 million of aid. The 1998-99 aid run prepared by DPI reflects \$4.9 million of special adjustment aid for the Waukesha School District.

3. If the modification recommended by the Governor is adopted by the Legislature, it may be desirable to specify that this provision would apply retroactively to 1998-99, so that the change would be fully effective in codifying the original legislative intent. If the provision would have a 1999-00 effective date as proposed by the Governor, the status of the special adjustment aid payment made to the Waukesha School District in 1998-99 could be open to question. In this case, DPI would have to make a determination as to whether to make a prior year aid adjustment to the 1999-00 general school aid received by the Waukesha School District.

4. The argument made in support of special adjustment aid is that a sudden drop in equalization aid can have a significant impact on the property tax levy of a school district. By cushioning this effect over a period of years, a hold harmless payment allows a school district to adjust to the lower level of state support. School districts that continue to need hold harmless aid will eventually receive their actual aid entitlement because state aid payments are allowed to decline by 15% or \$1,000,000 per year, unless the district's value per member is so high that it no longer qualifies for equalization aid.

5. Opponents would argue that special adjustment aid is disequalizing. In many cases, the reason for a decline in a school district's equalization aid is that the school district has a much higher property tax base per pupil than the year before; therefore, the school district has increased its local taxing capacity and can either levy taxes at a lower rate to raise the same amount of revenue or levy at the same rate to raise more revenue. In addition, if special adjustment aid were eliminated, funding now dedicated for this purpose would be redistributed under the equalization aid formula and could benefit lower-value, lower-cost school districts.

6. The \$1,000,000 rule serves to protect larger school districts that receive greater dollar amounts of general school aids, where a large amount of aid would have to be lost before the 15% threshold would be reached. As an example, a school district that receives \$50 million of general school aids for a school year, would have to lose more than \$8.75 million of aid in the following year before the 15% hold harmless provision would benefit the school district. Arguably, one could question the policy of allowing the general school aids of larger school districts to increase by \$10 or \$15 million between years, but to limit any reduction in aid between years to at most \$1 million. Under the \$1,000,000 rule, a larger school district that for example receives \$40 million in general school aids in 1999-00, would still qualify for \$30 million in special adjustment aid in 2009-10, even if its equalized value per member had increased to the point that it no longer qualified for equalization aid beginning in 2000-01.

## ALTERNATIVES

### A. Clarify Current Law

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to specify that it would first apply to the 1998-99 school year.
3. Maintain current law and specify that DPI make an aid adjustment in 1999-00 to reverse the special adjustment aid provided in 1998-99 in a case where both of the current law 85% and \$1,000,000 rules applied.
4. Maintain current law.

**B. Delete or Modify Special Adjustment Aid**

1. Delete special adjustment aid beginning with the 1999-00 school year, except current law that provides that consolidated school districts are guaranteed no less than the total amount of general school aids received by the separate school districts in the year prior to consolidation.

2. Modify special adjustment aid to delete the provision that limits any reduction in general school aids to the prior year payment minus \$1,000,000 beginning with the 1999-00 school year.

3. Maintain current law as modified under A.

Prepared by: Dave Loppnow

1999

Date (time) needed \_\_\_\_\_

LRB b 03701 1

**LFB BUDGET AMENDMENT  
[ONLY FOR LFB]**

PG King

See form **AMENDMENTS — COMPONENTS & ITEMS.**

**LFB AMENDMENT  
TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45**

>>FOR JT. FIN. SUB. — NOT FOR INTRODUCTION<<

At the locations indicated, amend the bill as follows:

✓ #. Page 1012, line 25: after that line insert:

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :

#. Page . . . . , line . . . . :



2137m  
" Section #. 121.105 (2) (a) 2. of the statutes is amended to read:

121.105 (2) (a) 2. If a school district would receive less in state aid in the current school year than an amount equal to the aid that it received in the previous school year minus \$1,000,000, its state aid for the current school year shall be increased to an amount equal to the state aid that it received in the previous school year minus \$1,000,000.

History: 1985 a. 29, 251; 1987 a. 27; 1989 a. 31, 114, 336; 1991 a. 39, 269; 1993 a. 16, 437; 1997 a. 27, 113.

This subdivision does not apply after the 1998-99 school year.

~~# Page 1013, line 2: delete "A" and  
substitute "A In the 1998-99 school  
year,~~

✓ #. Page 1013, line 2: after "and 2." insert  
" in the 1998-99 school year " .

~~(End)~~



✓ # Page 1456, line 10: delete ~~2~~

~~441.105(2)(a)1. are 3,~~ " and 3."

(End)



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRBb0370/1  
PG:kmg:km

LFB:.....Hardy - Special adjustment aid

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

LFB AMENDMENT

TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45

1 At the locations indicated, amend the bill as follows:

2 **1.** Page 1012, line 25: after that line insert:

3 “SECTION 2137m. 121.105 (2) (a) 2. of the statutes is amended to read:

4 121.105 (2) (a) 2. If a school district would receive less in state aid in the current  
5 school year than an amount equal to the aid that it received in the previous school  
6 year minus \$1,000,000, its state aid for the current school year shall be increased to  
7 an amount equal to the state aid that it received in the previous school year minus  
8 \$1,000,000. This subdivision does not apply after the 1998-99 school year.”

9 **2.** Page 1013, line 2: after “and 2.” insert “in the 1998-99 school year”.

10 **3.** Page 1456, line 10: delete “and 3.”.

11 (END)