Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2015 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 15-3709/2	Introduction Number SB-376

Description

Counting low-income pupils for state school aid purposes; calculating the amount to be appropriated for state general school aid; school aid factors; special adjustment aids; hold harmless aid; per pupil aid; school district revenue limits; the first dollar and school levy property tax credits; and making an appropriation

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
DPI/ Carl Bryan (608) 267-9127	Erin Fath (608) 266-2804	1/5/2016

Fiscal Estimate Narratives

DPI 1/5/2016

LRB Number **15-3709/2**	Introduction Number **SB-376**	Estimate Type **Original**
Description Counting low-income pupils for state school aid purposes; calculating the amount to be appropriated for state general school aid; school aid factors; special adjustment aids; hold harmless aid; per pupil aid; school district revenue limits; the first dollar and school levy property tax credits; and making an appropriation		

Assumptions Used in Arriving at Fiscal Estimate

This bill makes a number of changes in the laws relating to public school financing. The changes pertain to the revenue limit adjustment, the mechanics of the general/equalization aid formula itself and the state's level of funding for public schools via state aids and property tax credit programs. Several of the provisions included in this bill are identical or very similar to provisions included in the Department of Public Instruction's 2015-17 biennial budget request (although the return to two-thirds funding was not a part of the Department's request).

Revenue Limit per Pupil

Under current law, school district revenue limits control the amount of revenue that a school district may raise from state general aid and local property taxes. A school district's base revenue per pupil (revenue limit "member") is modified each year by a per pupil adjustment amount to determine its current year allowable revenue per pupil. Introduced in FY94 as part of school district revenue limits, the per pupil adjustment amount was set in state law. Since FY99, the per pupil revenue limit adjustment amount was increased by the rate of inflation; however, the inflation-driven adjustment was deleted under the 2009 Act 28 and thereafter, per pupil adjustments were dictated by a flat dollar amount specified in statute (with the exception of FY12, in which year all school districts were required to reduce their base revenue per pupil – not just the incremental per pupil adjustment – by 5.5 percent). Under current law, beginning in FY16, the per pupil adjustment is zero. Under current law, it will remain at zero until the state legislature modifies the per pupil adjustment amount

This bill provides a per pupil adjustment of $275 per pupil for FY17. Under the bill, in FY18 and thereafter, the per pupil adjustment would be equal to the per pupil adjustment for the previous school year adjusted for the change in the March over prior March consumer price index (CPI), if positive. The $275 per pupil revenue limit increase is comparable to the per pupil increase that was provided in FY09, before the revenue limit inflation adjustment was deleted from statute under 2009 Act 28. Additionally, the bill also increases the low revenue ceiling from current law $9,100 to $9,300 in FY17 and $9,600 thereafter.

Increasing the per pupil revenue limit by $275 per pupil and restoring the indexing mechanism to future per pupil adjustments will direct greater spending authority to school districts that have been operating under reduced or flattened revenue limits in recent years. Additionally, school districts whose revenue limit per pupil falls below the current law $9,100 low revenue ceiling will have greater revenue raising authority as a result the increased low revenue ceiling under this bill. Taken alone, the increase to school districts' revenue raising authority would increase local property taxes. However, if additional funding is directed into the state general/equalization aid formula, the additional state resources would mitigate increases in the school tax levy; the net impact on individual districts will vary, depending on each district's specific circumstances.

(The Department's 2015-17 biennial budget request included per pupil adjustments of $200 in FY16 and $204 in FY17; it also included an increase to the low revenue ceiling, to $9,400 in FY16 and then $9,700 in FY17).

Changes to the General/Equalization Aids Formula

Under current law, each district's controlled revenues (state general/equalization aid and local property taxes) are determined by the revenue limit calculation. State general/equalization aid received by a district is a direct offset to the district's local tax levy. This bill makes several changes to the formula for state general/equalization aid under s. 121.108, as well as other state educational aids under s. 121.09, 121.095, 121.105, 121.137 and subch. VI of ch. 121. In changing the amount that a district would be eligible to receive as state general/equalization aid, the bill has the potential to impact local property tax levies.

Pupil Counts (for General/Equalization Aid "Membership")

For purposes of determining a school district's general/equalization school aid amount, this bill requires that each pupil who is eligible for a free or reduced-price lunch (FRL) under the federal school lunch program be counted as an additional 0.30 Full Time Equivalent (FTE) pupil (school districts count all resident pupils for whom they pay the cost of education as part of "membership" for aid purposes). Therefore, under the bill, a school district's total membership, equalized value per member and shared costs per member, would be impacted, depending on the number of resident pupils who meet the FRL eligibility criteria.

The aim of the equalization aid formula is to equalize the property tax base per member across districts and cap levies according to a community's ability to pay as determined by the school district's property wealth. The formula accomplishes this goal by distributing aid based on a school district's aidable prior year costs ("shared costs") and its ability to pay, as determined by the school district's property wealth per member. As such, there is an inverse relationship between equalization aid and equalized property value per member, all other factors being equal. By weighting FRL eligible pupils at an additional 0.30 FTE, a district's membership would be increased; this would reduce its equalized property value per member, which in turn would drive more aid to the district through the equalization aid formula. The bill would also have the impact of lowering a district's shared costs per member (weighting FRL eligible pupils would increase the denominator), resulting in districts having a lower "aidable" cost (compared to current law). The impact of this change to shared cost per member (all other factors begin equal) would depend on a district's position in the formula: "positively aided" districts (those with relatively low property value per member) would have fewer costs to be aided, thus could lose aid; "negatively aided" districts (those with relatively high property value per member) would have fewer costs that would be negatively aided, and thus could gain aid. Those districts with the highest property values per member would likely not be impacted by the weighting of FRL eligible pupils, as these very high value district receive aid at the primary level only, or no equalization aid at all (may receive special adjustment aid – see below).

(The Department's 2015-17 biennial budget request included weighting FRL eligible pupils at the same level, but for the purpose of calculating equalized value per member, only).

Secondary Cost Ceiling

In the school district equalization aid formula, the "guaranteed valuations" represent the amount of property tax base support that the state guarantees behind each member. There are three guaranteed valuations used; each applies to a different level of expenditures. The first level is for expenditures up to the primary cost ceiling of $1,000 per member. The second level is for costs per member that exceed $1,000 but are less than the secondary cost ceiling, which is specified in statute to be equal to 90 percent of the prior school year statewide shared cost per member. Finally, the tertiary level is for shared costs above the secondary cost ceiling; the tertiary guarantee is specified in statute to be equal to the statewide equalized value per member (e.g., the state average). Because the tertiary guarantee is lower than the secondary guarantee, the state's share will be lower on costs above the secondary ceiling. For aid distributed in FY16, the secondary cost ceiling is equal to $9,400; just 19 of the state's 424 school districts have shared costs below the secondary cost ceiling.

This bill changes the secondary cost ceiling to 100 percent of the prior school year statewide shared cost per member. For FY16, this change would result in a secondary cost ceiling of $10,444 (181 of the 424 districts in the state were below $10,444). Increasing the secondary cost ceiling will result in a larger share of a school district's aidable costs being aided at the secondary level, rather than the tertiary level.

(The Department's 2015-17 biennial budget request included this provision).

Special Adjustment

The state provides additional general school aid to districts as way to cushion the effect of reductions in general school aid from one year to the next. This is referred to as special adjustment aid in state statute (it is also commonly referred to as a "hold harmless" aid, but this analysis will not use that term, so as to avoid confusion with the new hold harmless aid as proposed under the bill). School districts that are in declining enrollment are the primary beneficiaries of this payment, as declining enrollment contributes to a higher equalized value per member, which generally results in less aid over time for a school district. Special adjustment aid also goes to districts with property value in excess of the state "primary" guarantee (19 districts in FY16); these districts receive no state equalization aid. Special adjustment aid is meant to mitigate severe declines in aid by limiting the aid loss to 15 percent a year. Currently, if a school district would receive less in general state aid in any school year than 85 percent of the amount it received in the previous school year, its state aid for the current school year is increased to 85 percent of the aid received in the previous school year. In 2015-16, 57 districts qualified for special adjustment aid. Special adjustment aid is paid for from the same appropriation as equalization aid; thus, aid is redistributed within the formula to provide districts with special adjustment aid.

This bill increases the eligibility threshold for special adjustment aid from 85 to 90 percent of prior year general aid. All other factors unchanged, the impact of this change is that more districts would be eligible for special adjustment aid, ensuring that no district receives less than 90 percent of its prior year general aid. For FY16, the aid formula generated aid (equalization plus Chapter 220 aid) in an amount less than 90 percent of prior year aid for 71districts; however, this does not mean that 71 districts would have been eligible for special adjustment aid under the bill, because all of the other changes to the aid formula contained in the bill would work together to impact a district's general/equalization aid.

(The Department's 2015-17 biennial budget request included this provision).

Minimum Aid per Pupil

This bill provides that a school district's state aid in any school year may not be less than an amount equal to the school district's membership multiplied by $3,000 (prior to aid reductions related to the independent charter schools and parental choice programs).This change would drive a minimum level of state aid to school districts that receive very little or no aid under the current law general/equalization aid formula. Absent additional funding within the appropriation for general/equalization aid, aid would be redistributed away from other districts to ensure the goal of $3,000 per member in aid is met. For FY16, 96 school districts received less than $3,000 in general aid (prior to the adjustment noted above); however, this does not mean that 96 districts would have been eligible for minimum aid under the bill, because all of the other changes to the aid formula contained in the bill would work together to impact a district's general/equalization aid.

(The Department's 2015-17 biennial budget request included this provision. At that time, given all the assumptions and funding components of the Department's request, it was estimated that 60 districts would have been eligible for this new minimum aid.)

New Hold Harmless Aid Appropriation

As described later in this fiscal estimate, the bill would redirect $1,003.0 million in General Purpose Revenue (GPR), from the existing appropriation for the school levy tax credit (SLTC) and the first dollar credit (FDC), into the appropriation for state general/equalization aid. Under the bill, the state would provide the same overall amount of state funding toward support of K-12 education (as an offset to the local school tax levy) but would change the method of distributing $1,003.0 million that currently goes out as SLTC and FDC. The impact on school district general/equalization aid amounts would vary, depending on each district's shared costs and position within the aid formula (based on equalized value per member).

Under the bill, for the first year of implementation, a determination would have to be made of how much total state aid and property tax relief each district would have received under existing law (state general/equalization aid, high poverty aid and SLTC/FDC). This would be compared to the amount of general/equalization aid for which each district is eligible with the changes included in this bill. If any district were to receive less general/equalization aid with the changes under this bill, compared to what it would have received under existing law (general/equalization aid, high poverty aid and SLTC/FDC combined), that district would receive an additional "hold harmless" payment in an amount necessary to eliminate that difference. This payment would come from a new appropriation, separate from the appropriation for general/equalization aid. The effect of this change would be to hold harmless the school districts that would receive less state aid under this bill as compared to the funding formula under current law, thereby providing the same level of property tax relief after the funding for the SLTC and FDC is moved and distributed under the state general/equalization aid formula.

(The Department's 2015-17 biennial budget request included this provision. At that time, given all the assumptions and funding components of the request, it was estimated that 23 districts would have been eligible for this new hold harmless aid.)

High Poverty Aid

Under current law, if at least 50 percent of a school district's enrollment is FRL eligible, the school district is eligible for high poverty aid. The aid amount for an eligible district is equal to the amount appropriated, divided by the total number of members in all eligible districts, multiplied by the number of members in the eligible school district.. This program is designed to reduce a district's allowable maximum levies (it is a "general aid") and in the case of Milwaukee, reduce the aid reduction offset attributable to the Milwaukee Parental Choice Program. Further, these payments are treated as general aid payments for purposes of calculating a district's shared costs in the computation of general/equalization aid.

This bill eliminates high poverty aid beginning in FY17. However, by introducing an additional 0.30 FTE in the general/equalization formula (for FRL eligible members) under this bill, the aid appropriation for high poverty aid will effectively be redistributed as part of the general/equalization aid formula, as a levy-offsetting general state school aid. As described above, the bill provides additional state aid in FY17 to hold school districts harmless from the loss of high–poverty aid and the SLTC.

(The Department's 2015-17 biennial budget request included this provision to eliminate high poverty aid and fold the $16.8 million appropriated directly into the appropriation for general/equalization aid).

Per Pupil Aid

Originally enacted as part of 2011 Wisconsin Act 32, "per pupil adjustment aid" was first provided in FY13 in an amount equal to $50 multiplied by the school district's revenue limit membership. While per pupil adjustment aid was prorated for districts that did not levy to the maximum permitted under state law, the appropriation itself was sum sufficient, meaning all districts received the total amount for which it was deemed eligible. This aid was paid to school districts outside their revenue limits; as a categorical aid, it represents additional spending capacity for school districts. Beginning in FY14, the program was renamed "per pupil aid", provided $75 per revenue limit member and was decoupled from the district's levy effort – meaning that districts could choose to under-levy but still receive the full $75 per member. In FY15 the program provided $150 per revenue limit member. Under 2015 Act 55, the per pupil aid program continues to provide $150 per revenue limit member for FY16; for FY17 and thereafter, districts will received $250 per revenue limit member (unless that amount is changed in by a future Legislature). School districts are automatically eligible to receive this aid.

This bill eliminates per pupil aid after FY16.

(The Department's 2015-17 biennial budget request did not propose any changes to the per pupil aid program).

School Levy/First Dollar Tax Credit

State expenditures for property tax relief include, in addition to direct aids to municipalities and general school aids, property tax credit programs. The School Levy Tax Credit (SLTC) was included in the definition of state support for school districts when the state moved to two-thirds funding and are distributed based on each municipality's share of statewide levies for school purposes. These amounts are apportioned within municipalities based on each property's assessed value as a percent of the corresponding municipality's total assessed value. In effect, each individual taxpayer in a municipality shares in the tax credits paid to the municipality based on their share of the municipality's total assessed value. Although it is based on school levies, the credit has historically been paid to municipalities since municipalities are generally responsible for property tax administration.

2007 Act 20 created the First Dollar Tax Credit (FDC) and was determined by multiplying the school tax rate by the estimated fair market value of every parcel of real property that is located in the municipality. The FDC was first established for property taxes established for property taxes levied in 2008, and payable in 2009.

The bill eliminates the appropriations for, and payment of, the SLTC and the FDC to municipalities and shifts the amount of GPR appropriated for these tax credits ($1,003.0 million) into the appropriation for general/equalization aid, in FY17. Because the amounts appropriated currently under the SLTC/FDC program would be received by school districts under revenue limits (as general/equalization aid), there would be no net change to school district revenues as a result of moving the funds from the tax credits to the equalization aid formula.

(The Department's 2015-17 biennial budget request included this provision.)

Delay of Aid Payments

Currently, $75 million in school aid payments is delayed until the following fiscal year, being paid to school districts in July following the end of the school district's (and the state's fiscal) year. However, the amounts paid to school districts in July are (by law) considered to be revenues received by the school district in the immediately prior fiscal year that ended on June 30th (however, the state's expenditure is considered a current year expenditure). Beginning in FY18, this bill delays $972.4 million in school aid payments until July of the following fiscal year, reflective of the shifting of funding from the SLTC and the FDC to the general/equalization aid formula and that those credits are already paid on a delayed basis.

(The Department's 2015-17 biennial budget request included this provision.)

State Two-Thirds Funding

From FY97 through FY03, the state pledged to provide school districts with "two-thirds" funding of certain school revenues. State support was defined in statute based on the revenues received by school districts from state aid and the property tax levy and was calculated as a ratio between the sum of state general aid (including equalization aid) and categorical aid and the school levy tax credit, with "partial school revenues," defined generally as the sum of certain state general and categorical aids and school property tax levies. For this purpose, state aid amounts historically included funding provided to Cooperative Educational Service Agencies (CESAs) and County Children with Disability Education Boards (CCDEBs), and also the amounts lapsed to the general fund for parental choice programs and the independent "2r" charter school program.

The former statute required the Department, the Department of Administration (DOA) and the Legislative Fiscal Bureau (LFB) staff to agree upon the amount of state funding necessary to fulfill the state's two-thirds funding commitment for the following year and provide that figure to the Joint Committee on Finance (JCF) by May 15th of the second year of each biennium. The former law gave the JCF discretion to determine whether it would vote to provide additional GPR funding, if it was believed that appropriated state funding in the second year of the biennium was likely to be less than that necessary to achieve this target. Currently, the amount appropriated each fiscal year for general school aid is a sum set by law. While the state has not had a statutory two-thirds funding commitment for several biennia, state support for schools has ranged from 61.73% to 66.06% of partial school revenues in recent years.

This bill directs the Department, DOA, and LFB annually to jointly certify to JCF an estimate of the amount necessary to appropriate in the following years to ensure that state school aids equal the following percentage of partial school revenues (in general, the sum of state school aids and school property taxes):

a. For FY17, 64.5 percent.
b. For FY18, 65.2 percent.
c. For FY19, 65.9 percent.
d. For FY20 and each year thereafter, two–thirds.

Under the bill, JFC would determine the amount appropriated as general school aids in each odd–numbered fiscal year (e.g., FY17) and the amount is set by law in each even–numbered fiscal year.

(The Department's 2015-17 biennial budget request did not include this provision.)

Local Impact

The impact of the combined changes under this bill will vary depending on each school district's circumstances. At a minimum, with the changes that the bill proposes for the general/equalization aid formula, each district will be guaranteed a minimum of $3,000 per member in general/equalization aid (prior to adjustments for parental choice and independent charter school programs). Also, each school district would be held harmless in the first year of implementation (FY17) from loss of state aid, as compared to what the district would have received in combined general/equalization aid, high poverty aid and the SLTC.

Additionally, districts would gain revenue raising authority under school district revenue limits, as they would be able to increase their revenue limit by $275 per member (as compared to $0 per member, under current law). This impact, alone, would increase local tax levies. However it is not possible to determine, for future years, the net impact on local property taxes of combined impacts of the provisions included in this bill: increased revenue limits, adjustments to the general/equalization aid formula and the requirement that the state meet a specified level of support to schools via aid appropriations (ramping up to a two-thirds funding commitment). The local impact is therefore indeterminable.

State Impact
The changes to the general/equalization aid formula and the transfer of funds from the SLTC/FDC to the general/equalization aid formula would have no net impact on the state's appropriations. However, the commitment to specify levels of state support for K-12 education will likely lead to increases in state expenditures to meet those support levels specified in the bill. The amount required for future years in indeterminable.

Long-Range Fiscal Implications