



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1221

### Primary Guaranteed Valuation (DPI)

[LFB Governor's 2001-03 Budget Reform Bill Summary: Page 71, #2]

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#### CURRENT LAW

There are three guaranteed valuations used in the equalization formula that are applied to three different shared cost levels. Each district receives a distinct aid amount and percentage of state support for each tier of the formula, based on its shared costs eligible for aid on that tier.

*Primary tier.* The first tier is for shared costs up to the primary cost ceiling of \$1,000 per member. State aid on these primary shared costs is calculated using a statutory guaranteed valuation of \$2,000,000 per member, and is based on a comparison of the school district's equalized valuation per member to the \$2,000,000. State aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district receives at least the primary aid amount; primary aid cannot be reduced by negative aids generated at the secondary or tertiary aid levels.

*Secondary tier.* The second tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$6,848 per member in 2001-02. The secondary cost ceiling is set equal to 90% of the prior year statewide shared cost per member. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is placed at a level that generates equalization aid entitlements that are equal to the total amount of funding available for distribution. In 2001-02, the secondary guaranteed valuation is \$903,569 per member.

*Tertiary tier.* The third tier is for shared costs that exceed the secondary cost ceiling of \$6,848 per member. State aid on these tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$325,154 in 2001-02. If a school district's tertiary aid is a negative number, this amount is deducted from its secondary aid. As noted above, if

the sum of a district's secondary and tertiary aid is a negative number, this amount is not deducted from its primary aid amount.

## **GOVERNOR**

Set the primary guaranteed valuation per member under the equalization aid formula equal to \$1,930,000, beginning in 2002-03.

## **DISCUSSION POINTS**

1. The equalization aid formula operates under the principle of equal tax rate for equal per pupil costs, or tax base equalization. In pure form, this means that a school district's property tax rate does not depend on the property tax base of the district, but rather depends on the level of costs. Simply stated, there is an inverse relationship between equalization aid and property valuations; those districts with low per pupil property valuations receive a larger share of their costs through the equalization formula than districts with high per pupil property valuations. The purpose of this policy is to minimize the differences among school districts' abilities to raise revenue for educational programs.

2. The current primary tier of the equalization aid formula was established in the 1995-97 budget act, as part of modifications to the general school aids distribution related to the transition to two-thirds funding. In that budget, the primary guarantee was set at \$2,000,000 per member and the primary cost ceiling was set at \$1,000 per member, and both have remained unchanged since.

3. Administration officials indicate that the proposal to reduce the primary guaranteed valuation by 3.5% was intended to treat municipalities and school districts similarly under the bill. The administration estimates that the reductions in shared revenue under the bill would reduce municipal revenues by 3.5% in calendar year 2002. The 3.5% reduction in the primary guarantee uses the same percentage change. However, no change to funding for general school aids attributable to this change would be made; instead, this proposed modification would result in a slight redistribution of aid.

4. There are five factors used in the computation of equalization aid: membership, shared cost, equalized property valuation, the state's guaranteed valuations and the total amount of funding available for distribution. It is not possible to make accurate projections of these variables for a future school year, or to make accurate projections of the distributional effect of the proposed change in the primary guaranteed valuation. However, the distributional effect of changing the primary guarantee can be illustrated with the data used to calculate equalization aid in 2001-02, the most recent year for which data is available, as if the change had been in effect in that year.

5. If the other factors are held constant, a change in one of the guaranteed valuations redistributes aid under the formula. Had the primary guarantee been set at \$1,930,000 in 2001-02,

approximately \$330,000 in aid would have been redistributed among school districts. Because the state would guarantee a lesser amount at the primary level, the secondary guarantee would have risen (to approximately \$906,300) to distribute all of the available funding in the general school aids appropriation. A total of 374 districts would have received more aid under the Governor's proposal in 2001-02 than under current law, while 28 districts would have received less aid under the Governor's proposal than under current law. Aid payments to 24 districts would have been unchanged.

6. Among the districts that would have received more aid under the Governor's proposal in 2001-02 than under current law, no district would have gained more than 0.09% of their current law aid payment. The 24 districts with unchanged aid received special adjustment aid in 2001-02. Because special adjustment aid is a hold-harmless payment that ensures that districts receive at least 85% of their prior year general school aids payment, the proposed change in the primary guarantee would not have affected eligibility for these payments.

7. Two types of districts would have lost aid under the Governor's proposal as compared to current law. Seven districts that receive only primary and secondary aid under the equalization aid formula would have lost a small amount of aid (less than 0.1% each) because their shared costs are so low (less than \$6,450 per member) that the loss of aid at the primary level is not made up for by the additional aid at the secondary level. The other 21 districts that lose aid receive primary aid only under the equalization aid formula as a result of relatively high per member shared costs and property values. Thus, these districts would only have been affected by the reduced primary guarantee and not the increased secondary guarantee. Of these 21 districts, 18 would have lost from between 0.1% and 3.5% of their current law aid payment, and three districts would have lost more than 3.5% of their current law aid payment had the Governor's proposal been in effect in 2001-02, with the largest reduction being 10.0%.

8. Under current law revenue limits, any aid loss for school districts under this proposal could be made up for through the property tax levy. Another provision of the bill would specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210, unless a school board adopts a resolution to that effect by a two-thirds vote of the members-elect rather, in which case the adjustment would be an estimated \$230.67. To the extent districts with an aid loss would choose to be subject to the \$210 per pupil adjustment, this would mitigate increases in the local levy.

9. Given that the proposal reduces aid to some relatively higher-value, higher-cost districts, it could be argued that it enhances equalization under the formula. However, the proposal also reduces aid for some relatively low-value, low-cost districts, which runs counter to equalization. Also, since over 95 percent of school districts in the state would have realized an aid change of less than 0.1% with a total aid redistribution of only 0.008% (\$330,000) of general school aid funding (\$4.05 billion) had the Governor's plan been in effect in 2001-02, it could be argued that the effect is so small that it is not necessary to adopt the Governor's recommendation.

## **ALTERNATIVES TO BILL**

1. Adopt the Governor's recommendation to set the primary guaranteed valuation per member under the equalization aid formula equal to \$1,930,000, beginning in 2002-03.
2. Maintain current law.

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