



Legislative Fiscal Bureau

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May 19, 2011

Joint Committee on Finance

Paper #526

Special Adjustment Aid (DPI -- General School Aids and Revenue Limits)

[LFB 2011-13 Budget Summary: Page 345, #3]

CURRENT LAW

The general school aids appropriation funds equalization, integration, and special adjustment aid. Almost all of the funding in the appropriation is distributed through the equalization aid formula. A major objective of the formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. There is an inverse relationship between equalization aid and property valuations. Districts with lower per pupil property values receive a larger share of their costs through the formula than districts with higher per pupil property values.

Special adjustment aid is funded as a first draw from the general aid appropriation, either as a form of hold harmless payment or as an incentive for school district consolidation. Under the main type of special adjustment aid, an eligible district receives a payment equal to the amount needed to make the district's total general aid eligibility in the current year, prior to other aid adjustments, equal to 85% of its prior year general aid payment. Consolidated districts are eligible for a second type of special adjustment aid under which, in each of the first five years after consolidation, the new district is guaranteed to receive at least as much general aid as the separate districts received in the year prior to consolidation.

GOVERNOR

Specify that, for the 2011-12 distribution of general school aids, special adjustment aid would be calculated based on 90% of a district's prior year general aid payment.

DISCUSSION POINTS

1. The current law provisions related to special adjustment aid have been effective

since the 1999-00 aid year. Special adjustment aid was created in the 1977-79 biennial budget act, although there were hold harmless aid programs prior to that. Since it was first created, special adjustment aid has, at times, been paid from a separate appropriation, been limited to districts below a specified cost per pupil or value per pupil thresholds, or been used to limit the dollar loss in aid for eligible districts.

2. Under current law, in 2010-11, 69 districts were eligible for \$25.4 million in special adjustment aid. Districts can become eligible for special adjustment aid if overall funding in the general school aids appropriation declines or if the district's value or cost per pupil increases significantly relative to other districts, such that the district generates an equalization aid entitlement less than 85% of its prior year payment. Once districts become eligible for special adjustment aid, they may remain eligible for a period of years if they cannot compete better in the formula relative to other districts.

3. Because general school aids funding is subject to revenue limits, special adjustment aid does not allow for additional spending by eligible districts. Rather, it reduces the amount an eligible district may levy under its limit.

4. Under the budget bill, funding in the general school aids appropriation would decrease from \$4,652,500,000 in 2010-11 to \$4,261,954,000 in 2011-12 and \$4,293,658,000 in 2012-13. The bill provision on special adjustment aid would further limit the year-to-year decline in a district's general aid payment in 2011-12, when the general aid appropriation would decline by 8.4% compared to the prior year. The current law 85% provision would resume beginning in the 2012-13 aid year, when the general aid appropriation would increase by 0.7% compared to the prior year.

5. Reliable data to project 2011-12 general aid is not available at this time. To provide some indications of the effect of the special adjustment aid provision, the distribution of general aid for 2010-11, the most recent year for which audited data is available, can be modified as if the bill provisions had been in effect. While this does not give any indication of the aid payments districts will receive in 2011-12, it can provide an illustration of the possible magnitude of the effects of the bill provisions.

6. If the 2011-12 general aid funding reduction and the 90% special adjustment aid provisions of the bill had both applied in 2010-11, 280 districts would have been eligible for a total of \$247.9 million in special adjustment aid. If, however, the 2011-12 funding reduction in the bill had been in effect, but the current law 85% threshold for special adjustment aid had been maintained, 141 districts would have been eligible for \$110.3 million in special adjustment aid. (These eligibility figures include only the aid generated by the 85% or 90% special adjustment aid threshold. Aid generated by the hold harmless for consolidated districts and by prior year aid adjustments are excluded.)

7. The bill provision would affect the total general aid payment for most districts in the state. In comparing the hypothetical 2010-11 payments as if the 2011-12 aid reduction under the bill had applied, 229 districts would have received a higher payment under the bill provision for the 90% special adjustment aid threshold. A total of 190 districts would have received a higher

hypothetical aid payment under the current law 85% threshold. Six districts' hypothetical payments would have been the same under either threshold.

8. Given the relatively large reduction in the general school aids appropriation under the bill in 2011-12, it could be viewed as appropriate to provide additional special adjustment aid to further limit the annual decline in aid for a greater number of districts. Limiting the annual reduction in a district's aid eligibility to 10% in 2011-12 would be more in line with the overall reduction in the general school aids appropriation in that year.

9. Because special adjustment aid is funded as a first draw from the general school aids appropriation, the increase in special adjustment aid eligibility under the bill would result in less funding being distributed through the equalization formula. Given the significant reduction in general aid funding under the bill, it could be viewed as undesirable to further reduce the amount of funding available to equalize the tax base of school districts by providing additional special adjustment aid.

ALTERNATIVES

1. Approve the Governor's recommendation to specify that, for the 2011-12 distribution of general school aids, special adjustment aid would be calculated based on 90% of a district's prior year general aid payment.

2. Delete provision.

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