



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May, 2019

Joint Committee on Finance

Paper #575

Sparsity Aid (DPI -- Categorical Aids)

[LFB 2019-21 Budget Summary: Page 327, #14]

CURRENT LAW

Sparsity aid provides additional funding to small, rural districts meeting two eligibility criteria, based on data from the previous school year: (a) an enrollment of less than 745 pupils; and (b) a population density of fewer than 10 pupils per square mile of district attendance area. Aid is equal to \$400 multiplied by the school district's membership in the previous school year. A district that loses its eligibility as a result of an increase in its pupil population density can receive up to 50% of its prior year award in the year in which it loses eligibility. If funding is insufficient, payments are prorated. Base level funding is \$25,213,900 GPR in 2018-19.

GOVERNOR

Beginning in 2020-21, provide an additional \$9,786,100 GPR for sparsity aid and create an additional tier of aid eligibility that would provide \$100 per pupil to any district with an enrollment of more than 745 pupils and a population density of fewer than 10 pupils per square mile.

Additionally, beginning in 2020-21, allow a district that loses its eligibility as a result of an increase in its pupil population density to receive up to 50% of its prior year award in the year in which it loses eligibility.

DISCUSSION POINTS

1. The sparsity aid program was created in 2007 Act 30, and aid was first distributed in the 2008-09 school year. The program provides additional funding for small rural districts outside of their revenue limits. Aid to each eligible school district equals \$400 times the district's membership in the previous school year. If funding is insufficient, school districts receive a prorated portion of the total

amount for which they qualify.

2. The program is intended to mitigate a number of challenges experienced by rural districts with both a small pupil membership and a sparsely populated area. In districts with low enrollment, fixed costs are spread across fewer pupils, and class sizes in required courses may be so small as to further increase per pupil costs. Declining enrollment in many rural districts further decreases the resources available to affected districts and provides an additional challenge to districts with enrollments that are already low. Additionally, districts with low pupil density typically experience higher transportation costs associated with transporting a small number of pupils over a greater distance.

3. Under 2017 Act 59, a provision was created under which any district that qualified for sparsity aid in one year but did not qualify the following year as a result of an increase in its membership would receive 50% of its prior year award in the year in which it became ineligible for sparsity aid. The provision first applied in the 2017-18 school year. No districts lost eligibility in 2017-18, so no aid was paid under the provision in that year. In 2018-19, three districts lost eligibility, two of which qualified for a total of \$213,500 in one-time aid under the provision. The third district did not qualify for aid because it no longer met the pupil population density criteria.

4. In 2018-19, 143 school districts qualified for aid with a combined pupil membership of approximately 63,700. (An additional two school districts received aid under the provision described above.) Aid payments were not prorated in 2018-19. The following table shows the number of districts that qualified for aid, the total amount of funding appropriated, and the proration rate in each of the years between 2010-11 and 2018-19.

Sparsity Aid, 2010-11 to 2018-19

	<u>Districts</u>	<u>Appropriation</u>	<u>Proration</u>
2010-11	123	\$14,948,100	93.9%
2011-12	130	13,453,300	80.3
2012-13	129	13,453,300	82.1
2013-14	133	13,453,300	79.1
2014-15	133	13,453,300	78.7
2015-16	137	17,674,000	100.0
2016-17	141	17,674,000	97.1
2017-18	144	18,496,200	98.8
2018-19	145	25,213,900	100.0

5. Prior to the 2018-19 school year, the payment amount was equal to \$300 per pupil. The payment was increased under 2017 Act 141, which also provided an additional \$6,454,600 GPR in 2018-19 to fully fund the increased payments.

6. The additional funding in the bill would fund a proposed second tier of aid for districts that meet the following two criteria: (a) a membership of more than 745 pupils; and (b) a population density of less than 10 pupils per square mile of district attendance. Districts meeting these criteria would qualify for aid equal to \$100 per pupil. Based on DPI estimates, an additional 84 districts with total membership of approximately 101,700 would qualify in 2020-21. DPI estimates that payments

under the additional tier of aid would equal \$10,171,500 in 2020-21. Because funding under current law slightly exceeded eligible claims in 2018-19, an increase of only \$9,786,100 GPR would be required in the appropriation to fully fund these payments.

7. Additionally, the bill would provide districts that received sparsity aid in the previous school year but are not eligible in the current year because they do not meet the sparsity criterion with one-time aid equal to 50% of their prior year award. Under current law, districts are only eligible for this aid if they are ineligible for aid as a result of an increase in their membership. The creation of the second tier of aid would mean that there would no longer be a membership limit for sparsity aid eligibility, so that districts that continue to meet the sparsity criterion but whose membership exceeds 745 pupils would still qualify for the smaller per pupil payment under the program.

8. It could be argued that the second tier of aid would provide greater stability for districts whose membership is close to the 745 pupil cut-off for aid. Under current law, a small change in membership can result in a significant loss of aid for those districts whose membership is close to the cut-off. Under the bill, a district whose membership increased above 745 would still receive aid, but in a lesser amount. Additionally, the second tier of aid would result in additional state support for all districts meeting the sparsity criterion, regardless of their total pupil membership. It could be the case that sparse districts experience additional financial pressures even if they have a larger number of pupils, such as costs associated with transporting pupils over a large geographic area.

9. On the other hand, it could be argued that sparsity aid was conceived to address the challenges associated with both a small pupil membership and a sparsely populated area, and a district with a large number of pupils may not experience the same financial pressures caused by small class sizes and fewer pupils to share fixed costs. Additionally, other state aid programs, such as the high cost transportation program, exist that may address the areas in which districts with a large geographic area experience higher costs. Under the high cost transportation aid program, districts qualify for aid if they meet the following eligibility requirements: (a) a transportation cost per member greater than 145% of the state average in the prior year; and (b) a pupil population density of 50 pupils per square mile or less, calculated by dividing the school district's membership in the previous school year by the district's area in square miles.

10. The Blue Ribbon Commission on School Funding recommended additional funding for sparsity aid in its January, 2019, final report. The bipartisan Commission, which consisted of sixteen members, including legislators, school administrators, and other stakeholders, held public hearings and informational hearings throughout 2018 in locations throughout the state. The Commission recommended a range of options, including an option identical to the proposal in the bill. The Committee indicated a preference for another proposal under which districts could qualify for the current law payment of \$400 per pupil with a membership of up to 1,000 pupils, rather than 745 pupils as under current law. Additionally, a second tier of aid would be created under which districts could qualify for \$100 of aid per pupil if they met the following criteria: (a) membership of between 1,000 and 2,700 pupils; and (b) pupil population density of less than seven pupils per square mile. A similar proposal was recommended by the Speaker's Rural Schools Task Force in 2014. Based on data used to calculate the 2018-19 distribution of sparsity aid, it is estimated that an additional 61 districts could qualify for aid under this option. The total cost of the program under this approach would equal an

estimated \$41,717,000 GPR annually, an increase of \$16,858,600 GPR annually relative to base level funding. [Alternative 3]

11. In 2018-19, the appropriation for sparsity aid exceeded total aid payments by \$142,000, and that amount will lapse to the general fund. In its agency budget request, DPI estimated that total payments under the current law eligibility criteria will equal \$24,539,600 in 2019-20 and \$24,622,400 in 2020-21. If the Committee chooses to take no action regarding eligibility criteria, the appropriation could be reduced by \$500,000 GPR in 2019-20 and \$400,000 GPR in 2020-21 while leaving an annual reserve of \$170,000 to \$190,000 available in the appropriation to fully fund payments under current law, based on these estimates. [Alternative 3] If the Committee chooses to approve the Governor's recommendation, the appropriation could be reduced in the first year only. [Alternative 2]

ALTERNATIVES

Governor's Recommendation

1. Approve the Governor's recommendation to provide \$9,786,100 in 2020-21 above base level funding of \$25,213,900 for sparsity aid and create an additional tier of aid eligibility that would provide \$100 per pupil to any district with an enrollment of more than 745 pupils and a population density of fewer than 10 pupils per square mile. Additionally, allow a district that loses its eligibility as a result of an increase in its pupil population density to receive 50% of its prior year award.

ALT 1	Change to	
	Base	Bill
GPR	\$9,786,100	\$0

2. Approve the Governor's recommendation as under Alternative 1, but reduce funding by \$500,000 in 2019-20 to reflect the estimated level of payments under current law.

ALT 2	Change to	
	Base	Bill
GPR	\$9,286,100	- \$500,000

Blue Ribbon Commission Recommendation

3. Provide \$16,858,600 in 2020-21 and modify the program to provide \$400 of aid per pupil to districts with a membership of less than 1,000 pupils and pupil population density of less than 10 pupils per square mile, and \$100 of aid per pupil to districts with a membership of between 1,000 and 2,700 pupils and pupil population density of less than 7 pupils per square mile, beginning in 2020-21.

ALT 3	Change to	
	Base	Bill
GPR	\$16,858,600	\$7,072,500

4. Approve the program modification as under Alternative 3, but reduce funding by \$500,000 in 2019-20 to reflect the estimated level of payments under current law.

ALT 4	Change to	
	Base	Bill
GPR	\$16,358,600	\$6,572,500

Current Law

5. Reduce funding by \$500,000 in 2019-20 and \$400,000 in 2020-21 to fund estimated payments under current law.

ALT 5	Change to	
	Base	Bill
GPR	- \$900,000	- \$10,686,100

6. Take no action.

ALT 6	Change to	
	Base	Bill
GPR	\$0	- \$9,786,100

Prepared by: Christa Pugh