

# Public Instruction

## General School Aids and Revenue Limits

(LFB Budget Summary Document: Page 313)

### LFB Summary Items for Which an Issue Paper Has Been Prepared

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8	Special Adjustment Aid (Paper #554)
9	Minimum Aid (Paper #555)
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11	Hold Harmless Aid (Paper #557)





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May, 2019

Joint Committee on Finance

Paper #550

### **State Support for K-12 Education (DPI -- General School Aids and Revenue Limits and Categorical Aids)**

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#### **CURRENT LAW**

Article X, Section 3, of Wisconsin's Constitution specifies that the Legislature is responsible for the establishment of public school districts which are to be "as nearly uniform as practicable" and "free and without charge for tuition to all children." Under s. 121.01 of Wisconsin Statutes, it is declared that it is "the policy of this state that education is a state function" and "that some relief should be afforded from the local general property tax as a source of public school revenue where such tax is excessive, and that other sources of revenue should contribute a larger percentage of the total funds needed." That section also states that "in order to provide reasonable equality of educational opportunity for all the children of this state, the state must guarantee that a basic educational opportunity be available to each pupil," with the state contributing to a district's educational program only if it meets state standards.

*Revenue Limits.* Under revenue limits, the amount of revenue a school district can raise from general school aids, property taxes, and exempt property aid is restricted. A district's base revenue in a given year is equal to the restricted revenues received in the prior school year. Base revenue is divided by the average of the district's enrollments in the prior three years to determine its base revenue per pupil. If there is a per pupil adjustment authorized under the law, it is added to the district's base revenue per pupil to arrive at current year revenue per pupil. Current year revenue per pupil is then multiplied by the average of the district's enrollments in the current and prior two years to determine the district's initial revenue limit. Under current law, in 2018-19 and each year thereafter, no per pupil adjustment is made to each district's base revenue per pupil.

*Revenue Limit Adjustments.* There are several adjustments that are made to the initial

revenue limit, such as the low revenue adjustment, the base revenue hold harmless adjustment, and the declining enrollment adjustment. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A district can also exceed its revenue limit by receiving voter approval at a referendum.

*Low Revenue Adjustment.* Under the low revenue adjustment, if the sum of the base revenue per pupil and the revenue limit per pupil adjustment for a district is below a statutorily-specified amount, a district may increase its revenue to that amount. The low revenue adjustment amount in 2018-19 is \$9,400 per pupil, and that amount will increase by \$100 per year under current law until it reaches \$9,800 per pupil in 2022-23. Otherwise-eligible districts are generally restricted from any low revenue adjustment increases for three years after a failed operating referendum. These provisions were enacted in 2017 Act 141.

*Declining Enrollment Adjustment.* Under the declining enrollment adjustment, if a district's current year three-year rolling average pupil enrollment is less than its prior year three-year rolling average, the district receives a nonrecurring adjustment to its revenue limit in a dollar amount equal to 100% of what the decline in the average enrollments would have generated in revenue limit authority. Under the prior year base revenue hold harmless adjustment, if a district's initial revenue limit in the current year, after consideration of the per pupil adjustment and low revenue adjustment, but prior to any other adjustments, is less than the district's base revenue from the prior year, the district's initial revenue limit is set equal to its prior year base revenue amount.

*General School Aids.* The general school aids appropriation funds equalization, integration, and special adjustment aid. (High poverty aid, which is also a form of general aid, is funded from a separate appropriation.) 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. 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 on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. 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.

*Per Pupil Aid.* A sum sufficient per pupil aid appropriation was established in the 2013-15 biennial budget act. Each school district receives a statutorily-specified, flat per pupil aid payment, outside of revenue limits, from this appropriation. Under the 2017-19 biennial budget act, each district receives a \$654 per pupil payment in 2018-19 and a \$630 per pupil payment in 2019-20 and each year thereafter. A district's current three-year rolling average pupil count under revenue limits is used to calculate the aid payment.

*State Support.* One measure of state support of K-12 education is based on the concept of partial school revenues. The traditional definition of partial school revenues is the sum of state general and categorical aids and the gross school property tax levy, with certain exceptions. The traditional definition of state support is the sum of state general and categorical aids, the school

levy and first dollar tax credits, and the general program operations appropriation for the Program for the Deaf and Center for the Blind.

## GOVERNOR

*Revenue Limit Per Pupil Adjustment.* Set the per pupil adjustment under revenue limits at \$200 in 2019-20 and \$204 in 2020-21 and restore the prior law inflationary adjustment beginning in 2021-22. (Prior to 2009-10, the per pupil adjustment was adjusted for inflation, using the percentage change, if positive, in the consumer price index for all urban consumers between the preceding March and second-preceding March.)

*Low Revenue Adjustment.* Set the low revenue adjustment under revenue limits at \$9,700 per pupil in 2019-20 and \$10,000 per pupil in 2020-21 and each year thereafter, and delete the statutory provisions generally restricting otherwise-eligible districts from any low revenue adjustment increases for three years after a failed operating referendum.

*General School Aids Base Funding Increase.* Provide \$205,000,000 in 2019-20 and \$406,322,000 in 2020-21 for general school aids. Base level funding is \$4,656,848,000.

*Per Pupil Aid.* Maintain the per pupil aid payment at \$654 per pupil in 2019-20 and 2020-21 and in each year thereafter, and delete \$3,398,400 in 2019-20 and \$5,298,400 in 2020-21 as a reestimate of total per pupil aid funding. Base level funding is \$549,098,400.

*Overall State Support Funding.* Table 1 shows the level of state support for K-12 education in 2018-19 and the funding levels proposed by the Governor under the bill for each year of the 2019-21 biennium, using the traditional definitions of state support and partial school revenues.

**TABLE 1**

**State Support for K-12 Education -- AB 56/SB 59  
(\$ in Millions)**

<u>State Funding</u>	<u>2018-19 Base Year</u>	<u>Governor</u>		<u>Change to Base Year Doubled</u>	
		<u>2019-20</u>	<u>2020-21</u>	<u>Amount</u>	<u>Percent</u>
General School Aids	\$4,673.7	\$4,878.7	\$6,177.5	\$1,708.8	18.3%
Categorical Aids	1,226.1	1,358.3	1,854.8	760.9	31.0
School Levy Tax Credit	940.0	940.0	0.0	-940.0	-50.0
First Dollar Credit	150.0	150.0	0.0	-150.0	-50.0
State Residential Schools	10.9	11.9	11.9	2.0	9.2
Total	\$7,000.7	\$7,338.9	\$8,044.2	\$1,381.7	9.9%
Estimated Partial School Revenues	\$10,712.3	\$11,045.0	\$11,774.0		
Estimated State Share	65.4%	66.4%	68.3%		

## **DISCUSSION POINTS**

### **General Considerations**

1. In the most recent Supreme Court case regarding the constitutionality of the school finance system in 2000 (Vincent v. Voight), the Court held that the state school finance system did not violate either the uniformity clause or the equal protection clause of the state Constitution. In the Vincent decision, the Court also reaffirmed that "the Legislature is entitled to deference in its legislative policy involving fiscal-educational decisions."

2. The Court also held that "so long as the Legislature is providing sufficient resources so that school districts offer students the equal opportunity for a sound basic education as required by the Constitution, the state school finance system will pass constitutional muster." The decision also noted that this standard must take into account districts with disproportionate numbers of disabled students, economically-disadvantaged students, and students with limited-English proficiency.

3. Subject to this constitutional and statutory framework, the Legislature has the role of balancing the various policy goals for K-12 funding within the context of the overall state budget. The competing priorities for general fund revenues, as well as the overall size and condition of the state's general fund, must also be considered in determining the level of state support provided to K-12 education.

4. Within the legal framework, the Legislature must also balance competing goals in the allocation of funding for K-12 public schools with respect to equality and equity. Equality can be judged in terms of whether districts or pupils have the same overall amount of funding or receive the same funding increase. Equity generally attempts to take into account the differing situations and needs of pupils (such as the three classes of students mentioned in the Vincent decision) or districts (which can be measured by such things as property wealth, income wealth, historical spending levels, demographic characteristics, and geographic characteristics).

### **Methods of Providing State Support**

5. Traditionally, additional financial resources have been provided to school districts under revenue limits, either through the per pupil adjustment or through other adjustments to the revenue limit calculation. School boards have the ability to levy for any additional revenue limit authority, with the state providing support either through general school aids or the school levy tax credit to fund school district operations and reduce the local levy. This method allows for some combination of state and local contribution to K-12 funding. Attachment 1 shows the history of the per pupil adjustment since the imposition of revenue limits in 1993-94.

6. The basic concept of equalizing the fiscal capacities of school districts has been promoted through the equalization formula since 1949. The formula uses equalized property valuations per pupil to measure fiscal capacity. To equalize the tax bases of school districts, 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. In the 2018-19 aid year, the district with the highest property value per pupil had almost 50 times the property value per pupil as that of the lowest district.

The district at the 90<sup>th</sup> percentile had over three times the property value per pupil of the district at the 10<sup>th</sup> percentile. In the absence of a significant commitment to tax base equalization, it would be difficult, if not virtually impossible, for districts with the lowest property values per pupil to provide a reasonably equal educational opportunity for students as districts with the highest values could.

7. The school levy tax credit could be characterized as neutral with regard to equalization, given that the levy reduction under the credit generally is proportionate for all districts and produces a similar reduction in tax rates. Relative to general aid, school levy tax credit funding could be viewed as favoring taxpayers in districts with relatively higher spending levels and higher per pupil property values. Because these districts receive relatively less equalization aid, more of the cost of operating these districts is funded from property tax levies. Because the school levy tax credit is allocated based on each district's school levy in proportion to statewide levies, these districts receive relatively more school levy tax credit funding than districts that have more of their costs supported from general aid.

8. The first dollar credit was created in the 2007-09 biennial budget act. The first dollar credit is extended to each taxable parcel of real estate on which improvements are located. As a result, the first dollar credit is more focused on residential property than the school levy tax credit. The credit is calculated for each eligible parcel of property by multiplying the property's gross school tax rate by a credit base value determined by the Department of Revenue or the property's fair market value, whichever is less. The first dollar credit has represented a relatively small proportion of total state support since its creation.

9. Per pupil aid is a relatively new approach in providing state support to school districts. Per pupil aid could be viewed as a form of minimum aid, under which each district receives an equal, fully state-supported payment per pupil, regardless of the level of property wealth in the district. This could be viewed as a way to ensure that all pupils in the state receive some amount of state aid for their education and that all taxpayers in the state receive some level of benefit from the state to support the operations of their school districts. Attachment 1 shows the per pupil aid payment in each year since 2012-13 and the change in the payment to the prior year.

10. Other categorical aid programs allow for the provisions of additional resources for particular classes of pupils or districts. Three categorical aid programs are targeted to the classes of pupils recognized in the Vincent decision and are distributed on either a cost-reimbursement basis (special education and bilingual-bicultural aid) or on a per eligible pupil basis (the achievement gap reduction program). Separate categorical aid programs provide additional financial resources to particular classes of districts, such as the "small but necessary" districts (sparsity aid and high-cost transportation aid) or districts serving a relative large number of pupils who live in properties for which there is no parental property tax base support (tuition payments).

11. Under the bill, it is estimated that the appropriations for state school aids and property tax credits identified in Table 1 above would make up 39.8% of state general fund appropriations in 2019-20 and 40.1% in 2020-21.

12. Attachment 2 provides information on the relative allocation of funding between the major categories of state support for selected years since 1992-93. As shown in Attachment 2, when the state had a statutory policy in the late 1990s and early 2000s of funding two-thirds of partial school

revenues, the proportion of state support provided through general aid increased, as a result of the mechanism that was established to achieve that goal. In the decade after the repeal of the two-thirds funding commitment, increases in the school levy tax credit, the creation of the first dollar credit, and reductions to general aid funding moved the proportions closer to those prior to two-thirds funding. The creation of per pupil aid has led to an increase in the categorical aid proportion in recent years.

13. On April 9, this office distributed a memorandum to the Legislature on the estimated level of property taxes under the bill. In that memorandum, it was estimated that the statewide gross school levy would increase from \$4,987.9 million in 2018-19 to \$5,003.0 million in 2019-20 and decrease to \$3,958.0 million in 2020-21. These estimates represent year-over-year changes of \$15.1 million (0.3%) in 2019-20 and -\$1,045.0 million (-20.9%) in 2020-21. The large reduction under the bill reflects the proposed reallocation of the school levy and first dollar tax credits to general school aids, which would reduce the gross school levy but be neutral with respect to the net levy. Under prior Committee action, the bill provision to reallocate funding from the school levy and first dollar tax credits to the general school aids appropriation was deleted. The net school levy after consideration of the school levy and first dollar tax credits would increase from \$3,897.9 million in 2018-19 to \$3,913.0 million in 2019-20 and to \$3,958.0 million in 2020-21. These estimates represent year-over-year changes of \$15.1 million (0.4%) in 2019-20 and \$45.0 million (1.2%) in 2020-21.

### **Alternatives**

14. The relatively large portion of the state general fund allocated to state support of K-12 education under the bill, along with the increases in general and categorical aids, could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regard to K-12 education.

15. The Committee could also choose from a number of options to modify the school finance provisions of the bill, based on the overall level of partial school revenues, state aid, and statewide levy that is judged to be appropriate. The Committee could choose to modify the level of general aid and/or per pupil aid funding provided under the bill, provide financial resources to school districts through the per pupil adjustment and/or the low revenue adjustment under revenue limits, or use a blended approach among the various options.

16. The Blue Ribbon Commission on School Funding was a bipartisan Commission consisting of sixteen members, including legislators, school administrators, and other stakeholders. The Commission developed its recommendations following public hearings and informational hearings held throughout the state. In its final report, which was published in January, 2019, the Commission recommended that the Legislature provide future increases in resources for school districts through increases in the per pupil adjustment under revenue limits rather than per pupil aid, and that any per pupil adjustment provided under revenue limits be annually indexed by inflation. The Commission also recommended that the Legislature provide future increases in state support through the general school aid formula rather than through the school levy tax credit.

17. A per pupil adjustment under revenue limits would provide a general increase in the financial resources of school districts. Table 2 lists the changes in statewide revenue limit authority in each year that would result under four options to provide a per pupil adjustment for the 2019-21

biennium. For example, as shown in the third line of Table 2, if a \$100 per pupil adjustment were allowed in both 2019-20 and 2020-21, statewide revenue limit authority would increase by \$36 million in 2019-20 and \$103 million in 2020-21 compared to the base. This additional revenue limit authority under any of the alternatives could be funded from some combination of state general aid and/or the school levy tax credit and the local property tax levy.

**TABLE 2**  
**Revenue Limit Authority Under Options to Modify**  
**Per Pupil Adjustment (Change to Base)**

	Change in Revenue Limit Authority		
	(\$ in Millions)		
	2019-20	2020-21	Biennial
\$200/\$204 per pupil (Alt. B1)	\$101	\$256	\$357
\$150/\$150 per pupil (Alt. B2)	66	176	242
\$100/\$100 per pupil (Alt. B3)	36	103	139
\$50/\$50 per pupil (Alt. B4)	16	47	63

18. For declining enrollment districts, there would be an interaction between the base revenue hold harmless adjustment and any per pupil adjustment. If there is no per pupil adjustment (as under current law) and a district is not eligible for the low revenue adjustment, a district with declining enrollment would receive some additional revenue limit authority from the base revenue hold harmless adjustment, because its initial revenue limit would be lower than its base revenue as a result of the loss of pupils. Providing a per pupil adjustment would increase the initial revenue limit for eligible districts, which would result in a partially or fully offsetting reduction in the district's base revenue hold harmless adjustment. A per pupil adjustment, however, is a recurring adjustment which adds to an eligible district's base revenue, while the base revenue hold harmless adjustment is nonrecurring.

19. The Committee could also consider alternatives to increase the low revenue adjustment in conjunction with a per pupil adjustment. This adjustment is intended to decrease the disparity between low-revenue and high-revenue districts by providing additional revenue limit authority to low-revenue districts. If a per pupil adjustment is provided, it increases the base revenue for all districts, meaning that fewer districts would be eligible for the current law adjustment amounts that were enacted in 2017 Act 141.

20. Table 3 shows the changes in statewide revenue limit authority in each year of the biennium that would result under four alternatives that include an increase to the low revenue adjustment, including the bill provision to set it at \$9,700 per pupil in 2019-20 and \$10,000 per pupil in 2020-21. The low revenue adjustment amounts are set relative to the indicated per pupil adjustment to provide approximately \$40 to \$50 million in additional revenue limit authority, in total, to low-revenue districts over the biennium. For example, as shown in the second line of Table 3, if a \$150 per pupil adjustment and a \$9,650 per pupil low revenue adjustment were allowed in 2019-20 and a \$150 per pupil adjustment and a \$9,850 per pupil low revenue adjustment were allowed in 2020-21, statewide revenue limit authority would increase by \$82 million in 2019-20 and \$201 million in 2020-

21 compared to the base. As with the examples in Table 2, this additional revenue limit authority could be funded from some combination of state general aid/or the levy credit and the local levy. (For declining enrollment districts, there would be a similar interaction between any low revenue adjustment and the base revenue hold harmless adjustment as noted for the per pupil adjustments above.)

**TABLE 3**  
**Revenue Limit Authority Under Options to Modify**  
**Per Pupil and Low Revenue Adjustments (Change to Base)**

	Change in Revenue Limit Authority (\$ in Millions)		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial</u>
\$200/\$204 per pupil, \$9,700/\$10,000 low revenue (Gov., Alt. C1)	\$117	\$293	\$410
\$150/\$150 per pupil, \$9,650/\$9,850 low revenue (Alt. C2)	82	201	283
\$100/\$100 per pupil, \$9,600/\$9,800 low revenue (Alt. C3)	51	138	189
\$50/\$50 per pupil, \$9,550/\$9,750 low revenue (Alt. C4)	23	78	101

21. The alternatives at the end of this paper related to the per pupil adjustment and the low revenue adjustment indicate the estimated amount of revenue limit authority that would be generated by the respective amounts. In the absence of additional state funding, school boards would have the authority to levy, in total, those amounts. The levy impact could be reduced, in whole or in part, by providing an increase in general school aid or school levy tax credit funding. The fiscal effect of any alternatives involving the levy credit would have to account for the fact that the credit is paid on a delayed basis in the state fiscal year following the property tax year to which the credit applies

22. If a per pupil adjustment is provided in the 2019-21 biennium, the Committee would also have to address whether and how to continue the adjustment in the 2021-23 biennium. Under the bill, the prior law inflationary adjustment would be restored beginning in 2021-22. This option (Alternative D1) was also recommended by the Blue Ribbon Commission on School Funding.

23. The Committee could also specify that the per pupil adjustment in 2020-21 would also apply in subsequent years (Alternative D2) or continue the provision from the previous three budgets that there be no per pupil adjustment provided beginning in 2021-22 (Alternative D3). Under any of these alternatives, the 2021 Legislature would be still able to change the law to modify the per pupil adjustment or other aspects of revenue limits. These alternatives would, however, specify what the per pupil adjustment would be absent a subsequent change in the law.

24. If an increase in the low revenue adjustment is provided in the 2019-21 biennium, the Committee could also address the Governor's recommendation (Alternative E1) to delete the provisions of 2017 Act 141 generally restricting otherwise-eligible districts from any low revenue adjustment increases for three years after a failed operating referendum. The number of districts that would be affected by this provision would depend on the per pupil and low revenue adjustment amounts adopted. Under the bill, it is estimated that six districts that would otherwise be ineligible for the low revenue adjustment in 2019-20 would become eligible under this provision.

25. Table 4 shows the funding changes relative to the bill and to the base for six alternatives for per pupil aid payments in the 2019-21 biennium. For example, as shown in the fifth line of Table 4, if the per pupil aid payment were set at \$854 per pupil in 2019-20 and \$1,058 per pupil in 2020-21 and each year thereafter (thus providing the same increase to per pupil aid as the proposed per pupil adjustments in the bill), estimated general fund expenditures would increase by \$163.5 million in 2019-20 and \$330.6 million in 2020-21 compared to the base. Relative to the bill, per pupil aid funding would increase by \$166.9 million in 2019-20 and \$335.9 million in 2020-21.

**TABLE 4**  
**Per Pupil Aid Funding Under Options to Modify Payment Amount**

	<u>Change to Base (\$ in Millions)</u>			<u>Change to Bill (\$ in Millions)</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Biennial</u>
\$654/\$654 (Governor, Alt. F1)	-\$3.4	-\$5.3	-\$8.7	\$0.0	\$0.0	\$0.0
\$704/\$754 (Alt. F2)	38.3	77.9	116.2	41.7	83.2	124.9
\$754/\$854 (Alt. F3)	80.0	161.0	241.0	83.4	166.3	249.7
\$804/\$954 (Alt. F4)	121.8	244.2	365.9	125.2	249.5	374.6
\$854/\$1,058 (Alt. F5)	163.5	330.6	494.1	166.9	335.9	502.8
\$630/\$630 (Current Law, Alt. F6)	-23.4	-25.3	-48.7	-20.0	-20.0	-40.0

26. The per pupil adjustment under revenue limits and the level of per pupil aid funding provided also affect payments under the private school choice programs, the independent charter school program, and the special needs scholarship program, as well as the aid transfer amounts under the open enrollment program. Under current law, the respective per pupil payment under each of these programs in a given year increased by the per pupil revenue limit adjustment for the current year, if positive, plus the change in the amount of statewide categorical aid per pupil between the previous year and the current year, if positive. Under the bill, the change in the per pupil aid payment amount would replace the change in statewide categorical aid in the indexing mechanism. If the Committee modifies the bill with respect to the per pupil adjustment or per pupil aid, the respective payments and aid reductions for these programs would need to be adjusted as well.

## ALTERNATIVES

### A. General School Aid Base Funding Increase

1. Approve the Governor's recommendation to provide \$205,000,000 in 2019-20 and \$406,322,000 in 2020-21 for general school aids.

<b>ALT A1</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
GPR	\$611,322,000	\$0

2. Take no action.

ALT A2	Change to	
	Base	Bill
GPR	\$0	- \$611,322,000

**B. Per Pupil Adjustments under Revenue Limits**

1. Set the per pupil adjustment under revenue limits at \$200 in 2019-20 and an additional \$204 in 2020-21. *[This would generate an estimated \$101 million in 2019-20 and \$256 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

2. Set the per pupil adjustment under revenue limits at \$150 in 2019-20 and an additional \$150 in 2020-21. *[This would generate an estimated \$66 million in 2019-20 and \$176 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

3. Set the per pupil adjustment under revenue limits at \$100 in 2019-20 and an additional \$100 in 2020-21. *[This would generate an estimated \$36 million in 2019-20 and \$103 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

4. Set the per pupil adjustment under revenue limits at \$50 in 2019-20 and an additional \$50 in 2020-21. *[This would generate an estimated \$16 million in 2019-20 and \$47 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

5. Take no action.

**C. Per Pupil and Low Revenue Adjustments under Revenue Limits**

1. Approve the Governor's recommendation to set the per pupil adjustment under revenue limits at \$200 in 2019-20 and an additional \$204 in 2020-21, and set low revenue adjustment at \$9,700 per pupil in 2019-20 and \$10,000 per pupil in 2020-21 and each year thereafter. *[This would generate an estimated \$117 million in 2019-20 and \$293 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

2. Set the per pupil adjustment under revenue limits at \$150 in 2019-20 and an additional \$150 in 2020-21, and set low revenue adjustment at \$9,650 per pupil in 2019-20 and \$9,850 per pupil in 2020-21 and each year thereafter. *[This would generate an estimated \$82 million in 2019-20 and \$201 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

3. Set the per pupil adjustment under revenue limits at \$100 in 2019-20 and an additional \$100 in 2020-21, and set low revenue adjustment at \$9,600 per pupil in 2019-20 and \$9,800 per pupil in 2020-21 and each year thereafter. *[This would generate an estimated \$51 million in 2019-20 and \$138 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

4. Set the per pupil adjustment under revenue limits at \$50 in 2019-20 and an additional \$50 in 2020-21, and set low revenue adjustment at \$9,550 per pupil in 2019-20 and \$9,750 per pupil in 2020-21 and each year thereafter. *[This would generate an estimated \$23 million in 2019-20 and \$78 million in 2020-21 in statewide revenue limit authority, the levy impact of which can be offset in whole or in part by increased funding for general school aids or the school levy tax credit.]*

5. Take no action.

#### **D. Per Pupil Adjustment in 2021-22 and Thereafter**

1. In addition to any of the alternatives above to provide a per pupil adjustment, approve the Governor's recommendation to restore the prior law inflationary adjustment beginning in 2021-22, under which the amount would be adjusted annually by the percentage change, if positive, in the consumer price index for all urban consumers between the preceding March and second-preceding March.

2. In addition to any of the alternatives above to provide a per pupil adjustment, specify that the same per pupil adjustment that would be provided in 2020-21 would also be provided in each year thereafter.

3. In addition to any of the alternatives above to provide a per pupil adjustment, specify that there would be no per pupil adjustment beginning in 2021-22 and each year thereafter.

4. Take no action.

#### **E. Low Revenue Adjustment Eligibility**

1. In addition to any of the alternatives above to provide a per pupil adjustment, approve the Governor's recommendation to delete the statutory provisions generally restricting otherwise-eligible districts from any low revenue adjustment increases for three years after a failed operating referendum.

2. Take no action.

#### **F. Per Pupil Aid**

1. Approve the Governor's recommendation to delete \$3,398,400 in 2019-20 and \$5,298,400 in 2020-21 and maintain the per pupil aid payment at \$654 per pupil in 2019-20 and 2020-

21 and in each year thereafter.

ALT F1	Change to	
	Base	Bill
GPR	- \$8,696,800	\$0

2. *\$50 Per Pupil Annual Increase.* Provide \$38,319,200 in 2019-20 and \$77,852,600 in 2020-21 in per pupil aid to increase the payment from \$654 per pupil in 2018-19 to \$704 per pupil in 2019-20 and \$754 per pupil in 2020-21 and each year thereafter.

ALT F2	Change to	
	Base	Bill
GPR	\$116,171,800	\$124,868,600

3. *\$100 Per Pupil Annual Increase.* Provide \$80,039,200 in 2019-20 and \$161,002,600 in 2020-21 in per pupil aid to increase the payment from \$654 per pupil in 2018-19 to \$754 per pupil in 2019-20 and \$854 per pupil in 2020-21 and each year thereafter.

ALT F3	Change to	
	Base	Bill
GPR	\$241,041,800	\$249,738,600

4. *\$150 Per Pupil Annual Increase.* Provide \$121,759,200 in 2019-20 and \$244,152,600 in 2020-21 in per pupil aid to increase the payment from \$654 per pupil in 2018-19 to \$804 per pupil in 2019-20 and \$954 per pupil in 2020-21 and each year thereafter.

ALT F4	Change to	
	Base	Bill
GPR	\$365,911,800	\$374,608,600

5. *\$200/\$204 Per Pupil Increase.* Provide \$163,479,200 in 2019-20 and \$330,628,600 in 2020-21 in per pupil aid to increase the payment from \$654 per pupil in 2018-19 to \$854 per pupil in 2019-20 and \$1,058 per pupil in 2020-21 and each year thereafter.

ALT F5	Change to	
	Base	Bill
GPR	\$494,107,800	\$502,804,600

6. *Take no action (\$24 Per Pupil Decrease in 2019-20).* Delete \$23,426,400 in 2019-20 and \$25,253,400 in 2020-21 in per pupil aid to reestimate aid under the current law payment decrease

from \$654 per pupil in 2018-19 to \$630 per pupil in 2019-20 and each year thereafter.

<b>ALT F6</b>	<b>Change to</b>
	<b>Base      Bill</b>
GPR	- \$48,679,800 - \$39,983,000

Prepared by: Russ Kava  
Attachments

## ATTACHMENT 1

### Per Pupil Adjustment and Per Pupil Aid

	<u>Per Pupil Adjustment</u>	<u>Per Pupil Aid</u>	
		<u>Payment</u>	<u>Change to Prior Year</u>
1993-94	\$190.00		
1994-95	194.37		
1995-96	200.00		
1996-97	206.00		
1997-98	206.00		
1998-99	208.88		
1999-00	212.43		
2000-01	220.29		
2001-02	226.68		
2002-03	230.08		
2003-04	236.98		
2004-05	241.01		
2005-06	248.48		
2006-07	256.93		
2007-08	264.12		
2008-09	274.68		
2009-10	200.00		
2010-11	200.00		
2011-12	-5.5%*		
2012-13	\$50.00	\$50	
2013-14	75.00	75	\$25
2014-15	75.00	150	75
2015-16	0.00	150	0
2016-17	0.00	250	100
2017-18	0.00	450	200
2018-19	0.00	654	204
2019-20 (Bill)	200.00	654	0
2020-21 (Bill)	204.00	654	0

\*Average statewide reduction of \$554 per pupil.







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May, 2019

Joint Committee on Finance

Paper #551

### **Buyback of Current Law General School Aid Payment Delay (DPI -- General School Aids and Revenue Limits)**

[LFB 2019-21 Budget Summary: Page 316, #3]

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#### **CURRENT LAW**

Equalization aid is distributed to districts according to the following payment schedule: 15% on the third Monday in September; 25% on the first Monday in December; 25% on the fourth Monday in March; and 35% on the third Monday in June. The state pays \$75 million of equalization aid on a delayed basis, with districts receiving these monies on the fourth Monday in July of the following school year. Total aid entitlements on each of the four main dates are reduced by the percentage that generates the \$75 million amount for the school year.

#### **GOVERNOR**

Provide \$75,000,000 GPR in 2019-20 for general school aids and, beginning in the 2019-20 school year, delete the current law provisions under which the state annually pays that amount of aid on a delayed basis on the fourth Monday in July of the following school year. To distribute the correct amount of funding, specify that, for the purpose of calculating general school aid in the 2019-20 school year, DPI would treat the appropriation as if there were no buyback.

#### **DISCUSSION POINTS**

1. The current law equalization aid payment delay was enacted in the 1997-99 budget act, beginning with aid for the 1997-98 school year.
2. The \$75 million in delayed equalization aid payments represents 1.7% of the \$4,484.7 million in net equalization aid that will be paid to school districts in 2018-19.

3. The delayed aid payment contributes to the state's deficit in the general fund under generally accepted accounting principles (GAAP). As reported in the Comprehensive Annual Fiscal Report, the state had a \$1.25 billion GAAP deficit in 2017-18. In the Budget in Brief document, DOA estimates that the GAAP deficit will be \$1.21 billion in 2018-19 and \$1.08 billion in 2019-20 and \$2.20 billion in 2020-21 under the budget bill.

4. The delayed school aid payment could also contribute to the need for districts to do short-term borrowing for cash flow purposes. General school aids and property taxes typically make up the largest portions of school district budgets. In addition to the aid payment schedule noted above, property tax settlements by municipalities to other taxing jurisdictions, including school districts, are required in January, February, and August. Receiving additional state aid on the four main payment dates could reduce the need for cash flow borrowing, especially by more highly-aided districts.

5. The delayed aid payment, however, has been a part of the school finance system for over two decades. Because the \$75 million is a fixed number, it has represented a smaller percentage of equalization aid funding paid to districts as overall funding has increased over that time. In the first year of the payment delay, the \$75 million represented 2.2% of equalization aid funding paid.

6. One factor contributing the increase in the GAAP deficit in 2020-21 under the bill is the proposed reallocation of the school levy and first dollar tax credits to general school aids, which DOA estimated would increase the GAAP deficit by \$279 million in that year. Under prior Committee action, the bill provision to reallocate funding from those property tax credits to the general school aids appropriation was deleted.

7. Other options are available if the Committee would choose to modify the aid payment structure to improve school district cash flow. One of the recommendations forwarded by the Blue Ribbon Commission on School Funding was to modify the disbursement schedule for equalization aid so that districts would receive four equal payments of 25% in September, December, March, and June by 2023-24. Under this approach, the September payment would increase by two percentage points and the June payment would decrease by two percentage points each year, beginning in 2019-20, for five years. Had this alternative been fully effective in 2018-19, approximately \$450 million in aid payments would have been shifted from June to September. Under the phased-in approach, state general fund interest earnings would be reduced by an estimated \$1.7 million in 2019-20 and \$3.4 million in 2020-21.

## **ALTERNATIVES**

### **A. Buyback of Current Law Payment Delay**

1. Approve the Governor's recommendation to provide \$75,000,000 in 2019-20 for general school aids and, beginning in the 2019-20 school year, delete the provisions under which the state annually pays that amount of aid on a delayed basis on the fourth Monday in July of the following school year.

<b>ALT A1</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
GPR	\$75,000,000	\$0

2. Take no action.

<b>ALT A2</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
GPR	\$0	-\$75,000,000

**B. Modify Payment Schedule to Four Equal Installments**

1. Modify the disbursement schedule for equalization aid so that school districts would receive four equal payments of 25% in September, December, March, and June beginning in 2023-24, with the September payment increasing by two percentage points and the June payment decreasing by two percentage points each year, beginning in 2019-20, for five years. Reduce estimated general fund interest earnings by -\$1,700,000 GPR-REV in 2019-20 and -\$3,400,000 GPR-REV in 2020-21.

<b>ALT B1</b>	<b>Change to</b>	
	<b>Base</b>	<b>Bill</b>
GPR-REV	-\$5,100,000	-\$5,100,000

2. Take no action.

Prepared by: Russ Kava





## Legislative Fiscal Bureau

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May, 2019

Joint Committee on Finance

Paper #552

### **Two-Thirds Funding of Partial School Revenues (DPI -- General School Aids and Revenue Limits)**

[LFB 2019-21 Budget Summary: Page 316, #4]

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#### **CURRENT LAW**

The state does not have a statutorily-required commitment to fund a specified percentage of statewide K-12 school revenues or costs. General school aids funding is provided in a sum-certain appropriation, with the funding level determined through the budget process similar to most other state appropriations.

#### **GOVERNOR**

Beginning in 2020-21, restore the requirement that that state fund two-thirds of K-12 partial school revenues, and restore the associated statutory provisions that existed prior to its repeal in the 2003-05 biennial budget, as modified to reflect changes to K-12 funding provisions in the intervening time.

Define "partial school revenues" as the sum of state school aids, property taxes levied for school districts, and computer aid payments to school districts, less the following: (a) the amount of any revenue limit increase due to a school board's increasing the services that it provides by adding responsibility for providing a service transferred to it from another school board; (b) the amount of any revenue limit increase due to a school board increasing the services that it provides by adding responsibility for providing a service that is transferred to it from another governmental unit for a child with a disability or for a limited-English proficient pupil; (c) the amount of any revenue limit increase due to a district depositing funds into a specified capital improvement fund; (d) the amount of property taxes levied for community service activities; (e) an amount equal to the net general aid reduction to the Milwaukee Public Schools' aid entitlement related to the Milwaukee private school choice program; and (f) the amount by which the property tax levy for

debt service on referenda-approved debt referendum exceeds \$490 million.

Define "state school aids" as the amounts appropriated under s. 20.255(2), which is the statutory subsection containing the aids for local educational programming, less the appropriations for federal and program revenue aid appropriations and the appropriations for the private school choice, independent charter school, and special needs scholarship programs, which are also under s. 20.255(2), plus the general program operations appropriation for the program for the deaf and hard of hearing and the center for the blind and visually impaired, plus the DOA appropriation for debt service costs for educational technology infrastructure financial assistance to school districts and the amount, as determined by the DOA Secretary, in the DOA appropriation for telecommunications access for educational agencies allocated for payments to telecommunications providers under contracts with school districts and cooperative educational service agencies and to make information technology infrastructure grants.

Require the Departments of Public Instruction and Administration and the Legislative Fiscal Bureau to jointly certify, by May 15, 2021, and annually by May 15 thereafter, to the Joint Committee on Finance an estimate of the amount necessary to appropriate in the general school aids appropriation in the following school year to ensure that state school aids equal two-thirds of partial school revenues. Require the Joint Committee on Finance, by June 30, 2020, and biennially by June 30 thereafter, to determine the amount appropriated in the general school aids appropriation in following school year. Modify the general school aids appropriation from a sum certain appropriation to a sum sufficient equal to the amount determined by Joint Finance in the 2020-21 fiscal year and biennially thereafter, and equal to the amount determined by law in the 2021-22 fiscal year and biennially thereafter.

## **DISCUSSION POINTS**

1. From 1996-97 to 2002-03, the state had a commitment to fund two-thirds of K-12 partial school revenues. The 2003-05 biennial budget act deleted the two-thirds funding commitment and the associated statutory provisions. The bill would restore the two-thirds requirement and the associated statutory provisions that existed prior to repeal in the 2003-05 biennial budget, as modified to reflect changes to relevant K-12 funding provisions during the intervening time.

2. The bill provisions related to revenue limits and to funding levels for general and categorical school aids in the bill are considered in other issue papers. These provisions would determine the amount of state support provided and influence the level of partial school revenues for the upcoming biennium. This paper focuses on the issue of enacting the statutory provisions to establish the two-thirds funding goal.

3. Partial school revenues include only state aid and the property tax levy, which together typically account for approximately 90% of total K-12 revenues. This approach to measuring state support considers those costs that would be supported by the property tax in the absence of state aid. This is helpful when considering one of the primary objectives of state support for schools, which is to relieve the burden of the property tax.

4. The attachment shows state support funding and partial school revenues in each year since 1993-94, the changes in the amounts to the prior year, and the percent of partial school revenues supported by the state in each year. Also shown are those figures under the bill for 2019-20 and 2020-21. The years during which the two-thirds funding commitment applied are indicated in the attachment.

5. A number of factors would determine partial school revenues and thus the potential future cost of the proposed two-thirds commitment. Legislative decisions regarding revenue limits, including the per pupil adjustment and any other adjustments, and categorical aid funding levels would have a significant influence. Changes in local factors, such as district enrollments and referenda, would also have an impact.

6. Modifications to the definition of state school aids and partial school revenues could also potentially have an influence. When the two-thirds commitment was first put into place, partial school revenues was defined more simply as the sum of state school aids and school property taxes. The modifications to the definition during the two-thirds funding era, which would be restored under the bill, involved reducing the target for which the state would provide two-thirds support.

7. The two-thirds funding commitment would establish a default mechanism in statute for the overall level of K-12 funding. The general school aids appropriation would be treated differently from most other local assistance aids programs under the proposed approach. Every year, the three offices would make a certification to Joint Finance of the estimated amount of general aid needed to fund two-thirds of estimated partial school revenues. For even-numbered fiscal years, general aid funding would be set in the budget bill or separate legislation. For odd-numbered fiscal years, it would be the amount determined by Joint Finance.

8. Thus, the general school aid funding level would be set more on a formula basis rather than based on a legislative decision to set the aid at a certain amount, which is the case for other aid appropriations such as shared revenue and special education aids.

9. Establishing a statutory commitment could be viewed as appropriate because of the state's constitutional and statutory obligations regarding K-12 education, including providing for uniformity among districts and providing for relief from the local property tax. By establishing a certain percentage of state support, it improves the likelihood that the state will continue to provide increases in general aid as partial school revenues increase.

10. The Blue Ribbon Commission on School Funding recommended that the Legislature restore the two-thirds funding commitment to mitigate the levy impact of its revenue limit recommendations.

11. If the two-thirds funding commitment is restored, future Legislatures would be still able to change the law to modify the parameters of the commitment or the revenue limit and school aid provisions that affect it. Enacting the commitment would, however, specify what general aid funding policy would be absent a subsequent change in the law.

12. The statutory commitment of resources to K-12 education under the two-thirds

commitment could, however, limit the ability of future Legislatures to appropriate general fund revenues in other areas or to reduce the overall level of general fund taxes. To the extent that partial school revenues increase, the ongoing obligation to fund general aid at a specified percentage of partial school revenues would contribute to the out-year commitments for the general fund for future biennia.

13. Also, maintaining funding for general school aids can be difficult in economic downturns. In the issue paper prepared by this office during deliberations on the 2003-05 budget bill, it was noted that the administration at the time indicated that "due to state fiscal constraints, it is no longer feasible to maintain the state's two-thirds funding commitment." Base funding reductions were also made to the general school aids appropriation in both the 2009-11 and 2011-13 budget acts.

14. In the absence of a specific statutory commitment, the Legislature can still provide increases to state support larger than those that were typical of the two-thirds funding era, such as the increases provided in the 2005-07 and 2017-19 biennia.

15. In a May 1, 2019, letter to the Director of the Fiscal Bureau, the DOA State Budget Director requested that the two-thirds funding provisions in the bill be modified in two ways to better reflect the Governor's intent. The first modification would require DPI, DOA, and LFB to make a certification to Joint Finance by May 15, 2020, rather than 2021 as under the bill. This would be consistent with Joint Finance making a determination by June 30, 2020, for two-thirds funding to begin in 2020-21 as proposed. The second modification would include exempt personal property aid in the definition of partial school revenues, so that this newer aid program would be treated in the same manner as the similar computer aid payments that were in effect during the original two-thirds commitment.

## **ALTERNATIVES**

1. Approve the Governor's recommendation, as modified, to require that that state fund two-thirds of K-12 partial school revenues and the associated statutory provisions, beginning in 2020-21.

2. Take no action.

Prepared by: Russ Kava  
Attachment

## ATTACHMENT

### History of State Support and Partial School Revenues

	<u>State Support</u>		<u>Partial School Revenues</u>		Percent <u>State Support</u>
	<u>Amount</u>	<u>Change to Prior Year</u>	<u>Amount</u>	<u>Change to Prior Year</u>	
1993-94	\$2,505.9		\$5,174.7		48.43%
1994-95	2,781.3	\$275.4	5,457.7	\$283.0	50.96
1995-96	3,024.5	243.2	5,736.7	279.0	52.72
1996-97 *	4,035.4	1,010.9	6,094.1	357.4	66.21
1997-98 *	4,274.0	238.6	6,392.5	298.4	66.86
1998-99 *	4,458.7	184.7	6,714.5	322.0	66.40
1999-00 *	4,695.6	236.9	7,034.2	319.7	66.75
2000-01 *	4,932.6	237.0	7,403.7	369.5	66.62
2001-02 *	5,081.8	149.2	7,644.2	240.5	66.48
2002-03 *	5,254.4	172.6	7,919.5	275.3	66.35
2003-04	5,284.8	30.4	8,111.0	191.5	65.16
2004-05	5,336.3	51.5	8,374.6	263.6	63.72
2005-06	5,638.8	302.5	8,637.3	262.7	65.29
2006-07	5,897.9	259.1	8,927.4	290.1	66.06
2007-08	6,024.0	126.1	9,250.2	322.8	65.12
2008-09	6,296.3	272.3	9,574.1	323.9	65.76
2009-10	6,219.5	-76.8	9,731.9	157.8	63.91
2010-11	6,234.2	14.7	9,899.7	167.8	62.97
2011-12	5,802.1	-432.1	9,398.7	-501.0	61.73
2012-13	5,873.0	70.9	9,493.2	94.5	61.87
2013-14	5,987.4	114.4	9,658.6	165.4	61.99
2014-15	6,149.9	162.5	9,872.5	213.9	62.29
2015-16	6,258.4	108.5	9,975.5	103.0	62.74
2016-17	6,458.8	200.4	10,158.4	182.9	63.58
2017-18	6,830.9	372.1	10,525.0	366.6	64.90
2018-19	7,000.7	169.8	10,712.3	187.3	65.35
2019-20 (Bill)	7,338.9	338.2	11,045.3 **	333.0	66.44 **
2020-21 (Bill)	8,044.2	705.3	11,773.6 **	728.3	68.32 **

\*Two-thirds funding commitment.

\*\*Estimated.





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May, 2019

Joint Committee on Finance

Paper #553

### **Reallocate High Poverty Aid to General School Aids Appropriation and Weighting Economically Disadvantaged Pupils in Property Values (DPI -- General School Aids and Revenue Limits)**

[LFB 2019-21 Budget Summary: Page 318, #6 and #7]

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#### **CURRENT LAW**

*High Poverty Aid.* Base funding of \$16,830,000 GPR is appropriated for high poverty aid. A district is eligible for high poverty aid if at least 50% (rounded to the nearest whole percentage point) of the district's enrollment on the third Friday of September in the immediately preceding even-numbered year satisfied the income eligibility criteria for a free or reduced-price lunch in the national school lunch program. Aid per pupil (\$80 in 2018-19) is calculated by dividing the amount of funding appropriated by the total membership in all eligible districts, using the membership data from the equalization aid calculation in the first year of the biennium. A district's total payment is determined by multiplying that amount by each district's membership.

By law, for all districts except MPS, high poverty aid is a general aid subject to revenue limits. For MPS, high poverty aid must be used to reduce the school property tax levied for the purpose of offsetting the aid reduction attributable to the Milwaukee private school choice program. In either case, the effect of this aid is to reduce the property tax levy of the eligible district.

*Pupil Weighting.* For the calculations of revenue limits and general school aids, each full-time pupil in grades 1 through 12 is counted as 1.0 pupil in membership. Five-year-old kindergarten students are counted on a full-time equivalency basis, and four-year-old kindergarten students are counted as 0.5 or 0.6 pupil, depending upon the amount of outreach programming provided. There is no weighting of pupils in the formula based on pupil characteristics such as poverty, special education status, or English learner status.

## GOVERNOR

Eliminate high poverty aid and reallocate base funding of \$16,830,000 to the general school aids appropriation, beginning in 2020-21.

Specify that each economically disadvantaged pupil would be weighted by an additional 20% (be counted as 1.2 pupil rather than 1.0 pupil) for purposes of the membership count used in calculating equalized value per member under the general school aids formula, beginning with the 2020-21 distribution of general school aids.

## DISCUSSION POINTS

1. The basic concept of equalizing the fiscal capacities of school districts has been promoted through the state's general school aid formula since 1949. The fiscal capacity measure used by the formula is per pupil property valuations, as equalized by the Department of Revenue. The income of the residents of a school district does not factor into the calculation of equalization aid.

2. A major objective of the equalization aid formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. 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 on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. There is an inverse relationship between equalization aid and property valuations. Districts with low per pupil property valuations receive a larger share of their costs through the formula than districts with high per pupil property valuations.

3. It could be argued that property value is an appropriate measure of fiscal capacity. School districts currently have the authority to levy property taxes, and would have the ability under revenue limits to use that authority in the absence of state general aid. Districts do not have the authority to levy income or sales taxes.

4. Some have argued that property value is not an adequate measure of citizen ability to pay to support K-12 programs. Some areas of the state, for example, have larger concentrations of higher value lakefront or vacation property with residential populations of relatively modest income. Also, residents of any district living on a fixed income, such as those in retirement, could have difficulty paying property taxes if the value of their property increases or school district revenues increase as a result of a referendum.

5. There are mitigating factors within the current system that address these concerns to some extent. Residents of higher value districts may benefit from a lower overall school mill rate as a result of the higher value properties within district borders. Also, the state homestead tax credit program directs property tax relief to low-income homeowners and renters.

6. High poverty aid was created in the 2007-09 biennial budget act as a means of providing additional general aid to school districts with concentrations of poverty. The \$16.8 million appropriated for high poverty aid is less than 1% of the total amount appropriated for general aids

(\$4,673.7 million) in 2018-19. The attachment shows the high poverty aid payments to eligible districts in 2018-19.

7. The current law high poverty aid appropriation and the bill provision for pupil weighting represent two different approaches to providing general aid to districts with higher concentrations of poverty. High poverty aid is paid from a separate appropriation with a relatively easy to understand formula. As a sum certain appropriation, however, the funding does not adjust automatically in response to changes in the poverty over time. Rather, the amount of aid per pupil to eligible districts changes.

8. By adding a poverty weighting into the general aid formula, the bill provision would automatically incorporate changes in the number of economically disadvantaged pupils over time. It would also allow for poverty in all districts to be recognized, not just those that meet the threshold for high poverty aid. It would, however, become one factor among many factors in the equalization aid formula. This would arguably make it more difficult to explain its impact, and add additional complexity to a formula that is already generally considered complex.

9. The economically disadvantaged pupil weighting provision of the bill would be accomplished by adding 20% of the number of pupils who satisfy the income eligibility criteria for a free or reduced-price lunch to each school district's membership for the calculation of property value per member. Had the 20% weighting for economically disadvantaged pupils applied for the 2018-19 aid distribution, statewide pupil membership would have increased by 63,900, from 855,800 to 919,700.

10. The bill provision would not automatically result in a district receiving 20% more in aid for each low-income pupil. The effect on an individual district's aid would depend on the interaction of two factors under the formula.

11. First, adding an additional 20% weight for low-income pupils when calculating equalized value per member would reduce the value per member for districts with such pupils compared to current law. Because each district's value per member is compared to three guarantees under the equalization formula, with the formula supplying aid to fund the portion of guaranteed tax base that the district is missing, a district that has a lower value per member would, in isolation, receive more aid than under current law.

12. Second, to distribute the same amount of general aid funding, the state would not be able to provide as generous of a guarantee on the one of the tiers of the equalization aid formula compared to current law, generally reducing the amount of aid received by most districts.

13. The bill provision would add the weighting to only property value per pupil under the formula, not to cost per pupil or any of the other current law calculations under the formula. Because the weighting would not apply to revenue limits, it would not result in additional financial resources for districts with higher concentrations of poverty. It would only adjust the amount of general aid received by districts, which serves to reduce their levies under revenue limits. If the 20% weight for low-income pupils were added to revenue limits, it is estimated that statewide revenue limit authority would increase by \$215 million in the first year, \$430 million in the second year, and \$645 million in the third year once the increased weighting factor is fully reflected in the three-year rolling average of enrollment used under revenue limits.

14. In a May 1, 2019, letter to the Director of the Fiscal Bureau, the DOA State Budget Director requested that the economically disadvantaged pupil weighting provisions in the bill be modified to better reflect the Governor's intent. The requested change was that the weighting be applied to the full-time equivalent membership, rather than to just the number of pupils, as it is drafted in the bill. This would apply to kindergarten pupils that are counted as less than 1.0 FTE under current law, so that the 20% would apply to the appropriate weight for that pupil. This modification would be consistent with the distributional data published by DPI in prior agency budget requests related to school finance.

15. The bill provisions related to high poverty aid and per pupil weighting would be made in conjunction with a number of other changes to the state support funding and the general aid formula. A March 28 memorandum from this office to the members of the Wisconsin Legislature provided background information on K-12 school finance, described the general aid and tax credit provisions of the bill, and provided distributional information on those provisions had they been in place for the 2018-19 aid distribution.

16. In isolation, a total of \$53.8 million (1.2% of total net aid payments) would have been reallocated among districts had the bill provision weighting economically disadvantaged pupils been in effect for the 2018-19 aid distribution. A total of 189 districts would have received more general aid under this alternative compared to current law, while 186 districts would have received less general aid and 47 districts would have had their aid payment unchanged.

17. Among the 68 districts eligible for high poverty aid in 2018-19, 60 would have received more general aid under the pupil weighting alternative, while eight would have had their aid payment unchanged and none would have received less aid. Among the 354 districts not eligible for high poverty aid, 129 districts would have received more general aid under the alternative, 186 would have received less, and 39 would have had their aid payment unchanged.

## **ALTERNATIVES**

### **A. High Poverty Aid**

1. Approve the Governor's recommendation to eliminate high poverty aid and reallocate base funding of \$16,830,000 to the general school aids appropriation, beginning in 2020-21.

2. Take no action.

### **B. Weighting Economically Disadvantaged Pupils in Property Values**

1. Approve the Governor's recommendation, as modified, to specify that each economically disadvantaged pupil would be weighted by an additional 20% for purposes of the membership count used in calculating equalized value per member under the general school aids formula, beginning with the 2020-21 aid distribution.

2. Take no action.

Prepared by: Russ Kava  
Attachment

## ATTACHMENT

### 2018-19 High Poverty Aid by School District

<u>School District</u>	<u>Amount</u>	<u>School District</u>	<u>Amount</u>
Abbotsford	\$59,366	Marion	\$40,619
Adams-Friendship Area	135,316	Mauston	118,331
Alma Center	45,586	Mellen	23,634
Antigo	194,441	Menasha	297,310
Arcadia	100,065	Menominee Indian	73,306
Ashland	170,086	Mercer	11,777
Barron Area	115,126	Milwaukee	6,301,586
Bayfield	32,287	Necedah Area	57,042
Beecher-Dunbar-Pembine	21,231	Norris	1,763
Beloit	595,100	North Crawford	37,334
Birchwood	18,186	North Fond du Lac	105,833
Boscobel Area	67,457	Norwalk-Ontario-Wilton	54,479
Bruce	40,058	Owen-Withee	39,657
Butternut	15,703	Phelps	12,258
Cassville	17,065	Prairie du Chien Area	87,166
Chequamegon	56,241	Racine	1,702,380
Clayton	27,079	Richland	116,889
Clintonville	112,082	Seneca	23,874
Colby	76,911	Sharon J11	21,391
Cornell	34,610	Siren	38,616
Cudahy	201,651	Tigerton	18,987
Delavan-Darien	213,428	Tri-County Area	51,034
Drummond	33,408	Unity	86,765
Flambeau	49,592	Wabeno Area	32,287
Frederic	43,903	Walworth J1	40,138
Gillett	47,348	Wausaukee	37,574
Gilman	32,447	Wautoma Area	112,803
Granton Area	19,548	Webster	54,479
Green Bay Area	1,808,533	West Allis	691,639
Gresham	24,996	Weston	25,317
Independence	32,126	White Lake	13,459
Kenosha	1,771,760	Winter	23,874
Lac du Flambeau #1	43,182	Wisconsin Dells	<u>137,959</u>
Ladysmith	62,811		
LaFarge	19,708	TOTAL	\$16,829,997





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May, 2019

Joint Committee on Finance

Paper #554

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

[LFB 2019-21 Budget Summary: Page 319, #8]

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#### 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, primarily as a form of hold harmless payment. 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 and districts that enter into a whole grade sharing agreement are also eligible for special adjustment aid under separate statutory provisions.

#### GOVERNOR

Specify that special adjustment aid would be calculated based on 90% of a district's prior year general aid payment, beginning with the 2020-21 distribution of general school aids.

#### DISCUSSION POINTS

1. 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. The current law provisions related to the main type of special adjustment aid have been effective since the 1999-00 aid year.

2. One exception to the current 85% provision was that, under the 2011-13 budget act, special adjustment aid was calculated based on 90% of a district's prior year payment for the 2011-12 distribution of general school aids. That year, the general school aids appropriation was reduced by \$390.5 million from the prior year, in conjunction with a 5.5% reduction that year in base revenue for each district under revenue limits and collective bargaining modifications. This provision further limited the year-to-year decline in aid for districts that year.

3. In 2018-19, 52 districts were eligible for \$11.9 million in special adjustment aid, excluding prior year aid adjustments. These districts are listed in the attachment.

4. Districts tend to become eligible for special adjustment aid if overall funding in the general school aids appropriation is reduced or if a 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 more favorably in the formula relative to other districts.

5. Special adjustment aid is intended to smooth out what could otherwise be large reductions in aid for a district based on sudden changes in total funding or in the district's aid characteristics. Because special adjustment aid is a general aid subject to revenue limits, it also serves to reduce what could otherwise be large increases in a district's property tax levy. To the extent that it is considered desirable to have this hold harmless feature in the formula, the bill provision to increase it could be viewed as appropriate.

6. 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, in isolation, result in less funding being distributed through the equalization formula. It could be viewed as undesirable to reduce the amount of funding available to equalize the tax base of school districts by providing additional special adjustment aid.

7. The effect of this provision can be considered both in isolation and in the larger context of all of the general school aid formula changes proposed in the bill.

8. The bill provision relating to special adjustment aid would be made in conjunction with a number of other changes to the aid formula. A March 28 memorandum from this office to the members of the Wisconsin Legislature provided background information on K-12 school finance, described the general aid and tax credit provisions of the bill, and provided distributional information on those provisions had they been in place for the 2018-19 aid distribution.

9. To the extent that special adjustment aid districts have above-average property value per

pupil and gross levy per pupil, they would tend to be disadvantaged by the reallocation of the school levy tax credit to general school aids under the bill. The special adjustment aid provision, in addition to the minimum aid provision of the bill, could be viewed as a way to offset the reallocation of levy credit funding.

10. Under prior Committee action, the bill provision to reallocate funding from the school levy tax credit to the general school aids appropriation was deleted. To the extent that the special adjustment aid provision is viewed as attempting to benefit the same class of districts as the school levy credit, it may not be necessary to adopt it.

11. In isolation, had the 2018-19 aid distribution been calculated with the 90% threshold for special adjustment aid, 60 districts would have received more aid, 346 districts would have received less aid, and 16 districts would have had their aid unchanged. A total of \$3.7 million in funding would have been redistributed among districts, which is 0.1% of the total net general aid payments. A total of 61 districts would have been eligible for \$16.1 million in special adjustment aid (compared to 52 districts eligible for \$11.9 million under current law).

## **ALTERNATIVES**

1. Approve the Governor's recommendation to specify that special adjustment aid would be calculated based on 90% of a district's prior year general aid payment, beginning with the 2020-21 distribution of general school aids.

2. Take no action.

Prepared by: Russ Kava  
Attachment



**ATTACHMENT**

**2018-19 Special Adjustment Aid Eligibility**

<u>School District</u>	<u>Aid Eligibility</u>	<u>School District</u>	<u>Aid Eligibility</u>
Bayfield	\$11,907	Northwood	\$13,990
Beecher-Dunbar-Pembine	108,824	Paris J1	69,988
Big Foot UHS	21,445	Pepin Area	78,357
Birchwood	20,324	Phelps	4,352
Brighton #1	147,418	Randall J1	254,392
Chetek-Weyerhaeuser	486,570	Sevastopol	19,761
Drummond	17,864	Siren	118,014
Elcho	16,456	South Shore	8,199
Elkhart Lake-Glenbeulah	139,486	Southern Door	128,007
Erin	109,194	Suring	56,387
Florence	193,515	Swallow	178,334
Fontana J8	4,869	Three Lakes	27,568
Friess Lake	89,680	Tomahawk	406,793
Germantown	142,578	Verona Area	5,126,322
Gibraltar Area	3,042	Wabeno Area	96,932
Goodman-Armstrong	66,010	Washington-Caldwell	197,628
Kettle Moraine	1,078,754	Wausaukee	11,911
Kohler	55,467	Webster	46,407
Lac du Flambeau #1	187,566	Weston	12,224
Lake Country	33,337	White Lake	134,766
Lake Geneva-Genoa UHS	1,288,262	Wild Rose	113,884
Lake Holcombe	103,517	Winter	<u>30,612</u>
Lakeland UHS	30,348		
Linn J4	4,074	TOTAL	\$11,865,403
Linn J6	949		
Maple Dale-Indian Hill	20,319		
Minocqua J1	1,935		
New Berlin	10,281		
North Lake	291,308		
Northland Pines	45,276		





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May, 2019

Joint Committee on Finance

Paper #555

### Minimum Aid (DPI -- General School Aids and Revenue Limits)

[LFB 2019-21 Budget Summary: Page 319, #9]

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#### CURRENT LAW

A major objective of the general aid formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. 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 on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. 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.

The equalization aid formula is calculated using school district data (pupil membership, shared costs, and equalized valuations) from the prior school year. There are three guaranteed valuations used in the equalization formula that are applied to three different expenditure levels. The rate at which shared costs are aided through the formula is determined by comparing a district's per pupil property value to the three guaranteed valuations. Equalization aid is provided to make up the difference between the district's actual tax base and the state's guaranteed tax base.

*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 the primary guaranteed valuation of \$1,930,000 per member. Both the primary cost ceiling and the primary guarantee are set in statute. Primary aid is based on a comparison of the school district's equalized valuation per member to the \$1,930,000. Primary aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district whose equalized valuation per member is below \$1,930,000 receives at least the primary aid amount. Primary aid cannot be reduced by

negative aid generated at the secondary or tertiary aid levels. This feature of the formula is referred to as the primary aid hold harmless.

*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 \$9,729 per member in 2018-19. By law, 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. By law, the secondary guarantee is set at the amount that generates equalization aid entitlements that are equal to the total amount of funding available for distribution. In 2018-19, the secondary guaranteed valuation is \$1,241,233 per member.

*Tertiary tier.* The third tier is for shared costs that exceed the secondary cost ceiling of \$9,729 per member in 2018-19. State aid on tertiary shared costs is calculated using the tertiary guarantee, which, by law, is set at the statewide average equalized valuation per member. The tertiary guarantee is \$594,939 per member in aid year 2018-19. 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.

Under current law, there is no provision in the formula guaranteeing a district a minimum aid payment, either in total or on a per pupil basis.

## **GOVERNOR**

Beginning with the 2020-21 distribution of general school aids, specify that if the sum of a school district's equalization and special adjustment aid entitlements is less than an amount equal to \$3,000 per pupil multiplied by the district's aid membership, minimum aid would be paid in an amount equal to the difference between those two numbers.

## **DISCUSSION POINTS**

1. Prior to 1996-97, equalization aid was distributed using a two-tiered formula, with tiers that were similar to the secondary and tertiary levels of the current formula. Under the prior formula, minimum aids were provided to school districts which were either not eligible for equalization aid or which received very low payments per pupil. The minimum aid amount varied from \$175 to \$400 per pupil, based on a district's median household income and property tax levy rate.

2. The current three-tiered formula was enacted in the 1995-97 budget act and first applied to equalization aids paid in 1996-97. Under that act, minimum aids were eliminated and the primary tier was added to the formula. The primary guarantee was initially set at \$2,000,000 per member. Under the 2001-03 budget adjustment act, the primary guarantee was reduced to \$1,930,000 per member, effective with the 2002-03 aid distribution.

3. The primary tier of the formula was added to ensure that all school districts would receive some equalization aid funding when an increase of over \$800 million in general aid funding

was provided in 1996-97 over the prior year as the state began funding two-thirds of partial school revenues. Had the prior two-tiered formula remained in effect at the time, several districts would have remained ineligible for equalization aid under that formula, because their value per member would have exceeded the highest guaranteed valuation in the formula.

4. Districts with relatively high property value per pupil tend to receive less general aid per pupil than districts with relatively low property value per pupil. School districts with an equalized value per member in excess of the primary guarantee are "off the formula" and do not receive equalization aid. Districts with an equalized value between the primary and secondary guarantees tend to be subject to the primary aid hold harmless, which guarantees them a relatively small amount of equalization aid. Districts in both categories may still qualify for special adjustment aid, a hold harmless payment made as a first draw from the general aid appropriation.

5. Restoring minimum aid under the formula could be viewed as a way to ensure that all pupils in the state receive some amount of support from the general aid appropriation for their education and that all taxpayers in the state receive some level of benefit from the general aid appropriation to support the operations of their school districts.

6. There are other aspects of the current law school finance system that could be viewed as accomplishing that goal, however. Per pupil categorical aid, for example, could be viewed as a form of minimum aid, under which each district receives an equal, fully state-supported categorical aid payment per pupil, regardless of the level of property wealth in the district. Under current law, districts receive a \$654 per pupil payment in 2018-19 and a \$630 per pupil payment in 2019-20 and each year thereafter. Under the bill, the payment would be maintained at \$654 per pupil in 2019-20 and each year thereafter.

7. The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes during the three preceding years. These amounts are apportioned within municipalities based on each property's assessed value as a percent of the corresponding municipality's total assessed value. The school levy tax credit could be characterized as neutral with regard to equalization, given that the levy reduction under the credit generally is proportionate for all districts and produces a similar reduction in tax rates.

8. Relative to general aid, school levy tax credit funding could also be viewed as favoring taxpayers in districts with relatively higher spending levels and higher per pupil property values. Because these districts receive relatively less equalization aid, more of the cost of operating these districts is funded from property tax levies. Because the school levy tax credit is allocated based on each district's school levy in proportion to statewide levies, these districts receive relatively more school levy tax credit funding than districts that have more of their costs supported from general aid.

9. The bill provision creating a minimum aid entitlement from the general school aids appropriation would be made in conjunction with a number of other changes to the aid formula. A March 28 memorandum from this office to the members of the Wisconsin Legislature provided background information on K-12 school finance, described the general aid and tax credit provisions of the bill, and provided distributional information on those provisions had they been in place for the 2018-19 aid distribution.

10. Under prior Committee action, the bill provision to reallocate funding from the school levy tax credit to the general school aids appropriation was deleted. To the extent that the minimum aid provision is viewed as attempting to benefit the same types of districts as the school levy credit, it may not be necessary to adopt the Governor's recommendation for minimum aid.

11. In a May 1, 2019, letter to the Director of the Fiscal Bureau, the DOA State Budget Director requested that the minimum aid provisions be modified to better reflect the Governor's intent. The requested changes are that the minimum aid entitlement: (a) be compared to a district's total general aid entitlement (rather than just its equalization and special adjustment aid entitlements); and (b) be calculated using a district's current law pupil membership plus the 20% weighting for economically disadvantaged pupils under a separate bill provision. These modifications would be consistent with the distributional data published by DPI in prior agency budget requests related to school finance.

12. The following table shows the aid redistributions, in isolation, for the \$3,000 per member minimum aid provision of the bill and two alternatives for a \$2,000 and \$1,000 per member minimum aid, had they been in place for the 2018-19 aid distribution. These figures are only related to the minimum aid provision, as modified by the DOA letter, and do not incorporate any other provisions of the bill related to general school aids.

**Aid Redistributions Under Minimum Aid Alternatives**

	<u>Aid Redistribution</u>		<u>Districts' Aid Under Alternative Compared to Current Law</u>		
	<u>Amount (in Millions)</u>	<u>% of Total Net Payments</u>	<u>More Aid</u>	<u>Less Aid</u>	<u>No Change</u>
\$3,000 per pupil (Alt.1)	\$210.9	4.6%	96	324	2
\$2,000 per pupil (Alt. 2a)	91.6	2.0	71	345	6
\$1,000 per pupil (Alt. 2b)	25.5	0.6	55	353	14

13. Given that the primary guarantee was originally put in place as a replacement for minimum aid, the Committee could choose to increase that instead of providing minimum aid. For example, had the primary guarantee been set at \$6,000,000 per pupil for the 2018-19 aid distribution (rather than the \$1,930,000 per pupil under current law), all but two districts would have been "on the formula" and received an equalization aid entitlement.

14. Had the alternative to increase the primary guarantee to \$6,000,000 per pupil been in place for the 2018-19 aid distribution, \$20.1 million (0.4% of total net aid payments) would have been reallocated among districts. A total of 53 districts would have received more general aid under this alternative compared to current law, while 353 districts would have received less general aid and 16 districts would have had their aid payment unchanged.

**ALTERNATIVES**

1. Approve to Governor's recommendation, as modified, to specify that if a school district's

general aid entitlement is less than an amount equal to \$3,000 per pupil multiplied by the district's aid membership (including the economically disadvantaged pupil weighting), minimum aid would be paid in an amount equal to the difference between those two numbers, beginning with the 2020-21 aid distribution.

2. Specify that if a school district's general aid entitlement is less than one of the following amounts multiplied by the district's aid membership (including the economically disadvantaged pupil weighting), minimum aid would be paid in an amount equal to the difference between those two numbers, beginning with the 2020-21 aid distribution:

a. \$2,000 per pupil.

b. \$1,000 per pupil.

3. Increase the primary guarantee to \$6,000,000 per member for K-12 districts, adjusted proportionately for K-8 and UHS districts, beginning with the 2020-21 aid distribution.

4. Take no action.

Prepared by: Russ Kava





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May, 2019

Joint Committee on Finance

Paper #556

### Secondary Cost Ceiling (DPI -- General School Aids and Revenue Limits)

[LFB 2019-21 Budget Summary: Page 320, #10]

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#### CURRENT LAW

A major objective of the equalization aid formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. 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 on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. There is an inverse relationship between equalization aid and property valuations. Districts with low per pupil property valuations receive a larger share of their costs through the formula than districts with high per pupil property valuations.

The equalization aid formula is calculated using school district data (pupil membership, shared costs, and equalized valuations) from the prior school year. There are three guaranteed valuations used in the equalization formula that are applied to three different expenditure levels. The rate at which shared costs are aided through the formula is determined by comparing a district's per pupil property value to the three guaranteed valuations. Equalization aid is provided to make up the difference between the district's actual tax base and the state's guaranteed tax base.

*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 the primary guaranteed valuation of \$1,930,000 per member. Both the primary cost ceiling and the primary guarantee are set in statute. Primary aid is based on a comparison of the school district's equalized valuation per member to the \$1,930,000. Primary aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district whose equalized valuation per member is below \$1,930,000 receives at least the primary aid amount. Primary aid cannot be reduced by

negative aid generated at the secondary or tertiary aid levels. This feature of the formula is referred to as the primary aid hold harmless.

*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 \$9,729 per member in 2018-19. By law, 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. By law, the secondary guarantee is set at the amount that generates equalization aid entitlements that are equal to the total amount of funding available for distribution. In 2018-19, the secondary guaranteed valuation is \$1,241,233 per member.

*Tertiary tier.* The third tier is for shared costs that exceed the secondary cost ceiling of \$9,729 per member in 2018-19. State aid on tertiary shared costs is calculated using the tertiary guarantee, which, by law, is set at the statewide average equalized valuation per member. The tertiary guarantee is \$594,939 per member in aid year 2018-19. 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 secondary cost ceiling at 100% of the prior year statewide shared cost per member, beginning in with the 2020-21 distribution of general school aids.

## **DISCUSSION POINTS**

1. The secondary cost ceiling has been set at 90% of the prior year statewide shared cost per member since the 2001-02 general aid distribution. Prior to that time, the secondary cost ceiling was adjusted for inflation annually. Under that provision, the secondary cost ceiling consistently declined relative to the statewide average shared cost per member. To address this issue, the 2001-03 biennial budget act set the secondary cost ceiling at its current law 90% amount, which is approximately the level where it was at the time.

2. Prior to the imposition of revenue limits, the highest tier of the equalization formula (previously the secondary tier, now the tertiary tier) was intended to serve two purposes. First, it was intended to serve as a disincentive for higher spending levels by causing districts to receive aid at much lower levels for costs incurred above the secondary cost ceiling. Second, it attempted to narrow the per pupil spending disparities among school districts by redistributing aid to districts that spent at lower levels.

3. Under revenue limits, those two purposes are arguably less important. Revenue limits control the amount that districts can raise from the combination of state general aid and the local property tax levy. Thus, any changes in a district's general aid would tend to result in opposite changes in the district's levy, to the extent that districts levy the maximum amount allowed under revenue

limits, which most do. In addition, the primary method for narrowing spending disparities since the imposition of revenue limits has been increases to the low revenue adjustment, which provides additional revenue limit authority to low revenue districts.

4. The bill provision would increase the amount of shared costs that would be aided at the secondary level of the formula with its higher guarantee, and reduce the amount of shared costs that would be aided at the tertiary level with its lower guarantee. To distribute the same amount of aid, however, the state would not provide as generous of a guarantee at the secondary tier compared to current law.

5. The current secondary cost ceiling establishes an aid disincentive for below average costs. Under the bill, only if costs exceed the statewide average would districts be subject to a lower aid rate or negative tertiary aid. In the 2018-19 aid distribution, 41 of the 422 districts had a shared cost per member below 90% of the statewide average cost, while 176 had a shared cost per member below the statewide average. It could be argued that any penalty or disincentive features of tertiary aid are lessened when the vast majority of districts in the state are subject to it.

6. To the extent that the disincentive aspects of the tertiary tier still influence the decisions of individual districts, however, increasing the secondary cost ceiling could, in isolation, reduce the disincentive for higher spending by districts with shared costs per member between the current secondary cost ceiling and the proposed higher cost ceiling. This could redistribute state aid from districts with per pupil costs below the current secondary cost ceiling to districts with higher costs.

7. The bill provision modifying the secondary cost ceiling would be made in conjunction with a number of other changes to the aid formula. A March 28 memorandum from this office to the members of the Wisconsin Legislature provided background information on K-12 school finance, described the general aid and tax credit provisions of the bill, and provided distributional information on those provisions had they been in place for the 2018-19 aid distribution.

8. In isolation, had this option been effective for the 2018-19 aid year, the secondary cost ceiling would have been \$10,810 per pupil, rather than \$9,729 per pupil as under current law. A total of 242 districts would have received more aid, 117 districts would have received less aid, and 63 districts would have had their aid unchanged. A total of \$57.4 million in funding would have been redistributed among districts, which is 1.3% of total net general aid payments.

9. Districts with shared cost per member above the statewide average (the proposed cost ceiling) would generally tend to receive more aid compared to current law. Districts with shared cost per member below the statewide average would generally tend to receive less aid compared to current law. Aid eligibility for higher value districts would tend to remain unchanged.

10. Rather than increasing the secondary cost ceiling in one year, the Committee could also choose to phase the increase in over a longer period. One such alternative would be to increase the secondary cost ceiling by 2.5 percentage points over a four-year period, beginning with the 2020-21 aid distribution (Alternative 2). Had the secondary cost ceiling been set at 92.5% of the prior year statewide average shared cost per member for the 2018-19 aid year, only \$11.8 million in funding would have been redistributed among districts, rather than the \$57.4 million under the 100% option.

11. In their report to the Legislature, the Blue Ribbon Commission on School Funding recommended that the Legislature consider addressing the issue of negative tertiary aid with one or more of three options, one of which was the Governor's recommendation to set the secondary cost ceiling at 100% of the prior year statewide shared cost per member.

12. Another option was a more narrowly-focused alternative to specify that any additional costs generated by a referendum (debt, operating, or both) would be excluded from aidable cost for negative tertiary aid districts (Alternative 3). The effect of additional aidable costs, such as from a referendum, differ based on the property value per pupil of the district. A district with costs at the tertiary tier and a property value per pupil below the statewide average would receive additional equalization aid for increased costs. A district with property value per pupil above the statewide average would lose aid for those costs. Districts with property value per pupil above roughly twice the statewide average would likely be subject to the hold harmless provisions that would result in no aid change on additional costs.

13. The effect on district levies under revenue limits would also vary. As an example, if a below-average value district raises an additional \$100 under a referendum, it might receive \$20 of positive aid for those costs, meaning it would have to levy \$80 under revenue limits to fund the expenditures. If an above-average value (negative tertiary aid) district raises that additional \$100, it might lose \$30 in negative tertiary aid, meaning it would have to levy \$130 dollars to fund the expenditures. If a very high-value district raises the additional \$100, the hold harmless provisions would mean that its aid would likely be unaffected, meaning it would have to levy only the \$100 raised.

14. This alternative would thus exclude additional referenda expenditures for negative tertiary aid districts. Under this alternative, equalization aid could be shifted among districts for costs attributable to such referenda, if they would have been offered and passed under current law. To the extent that referenda would be offered and passed in negative tertiary districts under current law, there would be a redistribution of aid related to the treatment of the additional costs under the alternative. To the extent that referenda would not be offered and passed in negative tertiary districts under current law, there would be no redistribution of aid under the alternative.

15. A final option identified by the Commission was to add a secondary aid hold harmless to the formula, similar to the current law primary aid hold harmless (Alternative 4). This would mean that negative tertiary aid could not reduce positive secondary aid. This would maintain a tertiary aid concept but address the discontinuity described above. Had this option been effective for the 2018-19 aid year, 77 districts would have received more aid, 297 districts would have received less aid, and 48 districts would have had their aid unchanged. A total of \$72.7 million in funding would have been redistributed among districts, which is 1.6% of the funding appropriated.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to set the secondary cost ceiling at 100% of the prior year statewide shared cost per member, beginning in the 2020-21 aid year.

2. Modify the Governor's recommendation to set the secondary cost ceiling at the following percentages of prior year statewide shared cost per member: (a) 92.5% in the 2020-21 aid year; (b) 95% in the 2021-22 aid year; (c) 97.5% in the 2022-23 aid year; and (d) 100% in the 2023-24 aid year and each aid year thereafter.

3. Delete the Governor's recommendation and instead specify that, beginning in the 2020-21 aid year, any additional costs generated by the following type of referendum would be excluded from aidable cost if the result of the exclusion would be an increase in a district's aid.

- a. Debt referenda
- b. Operating referenda
- c. Both debt and operating referenda

4. Delete the Governor's recommendation and instead add a secondary aid hold harmless feature to the equalization aid formula, beginning in the 2020-21 aid year.

5. Take no action.

Prepared by: Russ Kava





## Legislative Fiscal Bureau

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May, 2019

Joint Committee on Finance

Paper #557

### Hold Harmless Aid (DPI -- General School Aids and Revenue Limits)

[LFB 2019-21 Budget Summary: Page 320, #11]

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#### CURRENT LAW

No provision.

#### GOVERNOR

Create a sum sufficient appropriation from the general fund for hold harmless aid, and provide \$7,500,000 for payments in 2020-21. Specify that if a school district would receive less in equalization aid in 2020-21, before any prior year aid adjustments are made, than it would receive from the sum of general aid, the school levy credit had it still been applicable, and high poverty aid had it still been applicable, the Department would pay the district an amount equal to the difference. (The bill would reallocate funding from the school levy tax credit and high poverty aid to the general school aids appropriation.) Provide that, for a district from which territory is detached to create a new district, the district's prior year aid total would be adjusted by the proportion of pupil membership remaining in the district after the detachment. Provide that, for a consolidated school district, the district's prior year aid total would be the sum of the amounts received by the separate districts prior to consolidation.

Specify that hold harmless aid would be a general aid under revenue limits. Specify that no hold harmless aid could be paid after the 2020-21 school year.

#### DISCUSSION POINTS

1. The bill would provide additional general school aid funding, make several modifications to the general school aid formula, and reallocate funding for the school levy and first

dollar tax credits and high poverty aid to the general aid appropriation. Hold harmless aid would provide one year of funding to ensure that districts would not lose aid as a result of the school finance changes under the bill.

2. Under prior Committee action, the bill provision to reallocate funding from the school levy and first dollar tax credits to the general school aids appropriation was deleted. Since the relatively large amount of funding provided for the property tax credits (\$1.09 billion in 2018-19) would not be allocated using a different method, there would appear to be little rationale for creating a hold harmless aid appropriation.

3. To the extent that the Committee adopts any of the other bill provisions modifying the general school aid formula, special adjustment aid would work within the general aid appropriation as a hold harmless payment. Under current law, an eligible district receives a payment equal to the amount needed to make the district's total general aid eligibility in the current year equal to 85% of its prior year general aid payment. The bill would increase that threshold to 90%. (This provision is discussed in a separate issue paper.)

**ALTERNATIVES**

1. Approve the Governor's recommendation, with technical corrections, to create a sum sufficient appropriation from the general fund for hold harmless aid, and provide \$7,500,000 for payments in 2020-21.

ALT 1	Change to	
	Base	Bill
GPR	\$7,500,000	\$0

2. Take no action.

ALT 2	Change to	
	Base	Bill
GPR	\$0	- \$7,500,000

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# **PUBLIC INSTRUCTION**

## **General School Aids and Revenue Limits**

### **LFB Summary Items Removed From Budget Consideration**

<u>Item #</u>	<u>Title</u>
5	Reallocate Property Tax Credit Funding to General School Aids Appropriation
14	Revenue Limit Adjustment for Lead Testing and Remediation
15	Four-Year-Old Kindergarten Membership
16	Limit on Number of School District Referenda