



Legislative Fiscal Bureau

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

June 8, 2023

Joint Committee on Finance

Paper #632

Equalization Aid Formula (DPI -- General School Aids and Revenue Limits)

CURRENT LAW

The general school aids appropriation funds equalization, integration (Chapter 220), and special adjustment aids. In 2022-23, \$5,201.6 million from the general fund is appropriated for general school aids. Of the total amount of funding provided, 394 of the state's 421 school districts are eligible for \$5,155.4 million in equalization aid, 20 districts are eligible for \$37.2 million in integration aid and 48 districts are eligible for \$9.0 million in special adjustment aid.

The formula is calculated using school district data (pupil membership, shared costs, and equalized property 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. (The guaranteed valuations are adjusted proportionately for K-8 and union high school districts.)

The primary (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.

The secondary (second) tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$10,832 per member in 2022-23. By law, the

secondary cost ceiling is set equal to 90% of the prior year statewide shared cost per member. The state's share 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 2022-23, the secondary guaranteed valuation is \$1,722,650 per member.

The tertiary (third) tier is for shared costs that exceed the secondary cost ceiling of \$10,832 per member in 2022-23. 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 \$754,823 per member in aid year 2022-23. 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.

Integration aid and special adjustment aid are funded as first draws from the general school aids appropriation. Integration aid was provided as an incentive for districts to voluntarily improve racial balance within and between districts, with aid paid based on the number of pupil transfers. Under the 2015-17 biennial budget act, integration aid started to be phased out beginning with the 2016-17 school year.

Special adjustment aid is provided as a hold harmless aid. The special adjustment aid payment to an eligible district is equal to the amount needed to make a district's total general aid eligibility in a given year equal to 85% of its prior year's general aid payment.

DISCUSSION POINTS

1. 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.

2. The current three-tiered equalization aid formula was enacted in the 1995-97 biennial budget and first applied to aid paid in 1996-97. Prior to 1996-97, equalization aid was distributed using a two-tiered formula that was similar to the secondary and tertiary levels of the current three-tiered formula. The primary tier was added to the formula in the 1995-97 biennial budget act.

3. If the state increases the amount of funding in the general school aids appropriation, the percentage of shared cost aided through the equalization formula also increases assuming that all other factors are constant. If more funding is appropriated, the secondary guaranteed valuation increases to the level necessary to distribute the additional amount. Because school district memberships, costs,

and property values change from one year to the next, there is no direct relationship between the annual change in equalization aid funding and the annual change in the secondary guarantee.

4. Table 1 shows the amount appropriated in the general school aids appropriation in each of the last ten years. Over \$800 million more in funding was provided in 2022-23 than in 2013-14.

TABLE 1

General School Aids Appropriation

	<u>Appropriation</u>	<u>Change to Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>
2013-14	\$4,381,594,600		
2014-15	4,475,960,500	\$94,365,900	2.2%
2015-16	4,475,960,500	0	0.0
2016-17	4,584,098,000	108,137,500	2.4
2017-18	4,584,098,000	0	0.0
2018-19	4,656,848,000	72,750,000	1.6
2019-20	4,740,048,000	83,200,000	1.8
2020-21	4,903,590,000	163,542,000	3.5
2021-22	5,013,590,000*	110,000,000	2.2
2022-23	5,201,590,000	188,000,000	3.7

*Excludes funding appropriated to buy back prior law delayed aid payment

5. Table 2 shows the three guarantees under the formula for each of the last 10 years. Due to the funding increases shown in Table 1, the secondary guarantee increased in each year shown. Also shown in Table 2 is the percent that the secondary guarantee was of the primary guarantee in each year. In 2013-14, the secondary guarantee was 56.5% of the primary guarantee. In 2022-23, the secondary guarantee was 89.3% of the primary guarantee.

TABLE 2

State Guaranteed Valuations Per Member

	<u>Primary</u>	<u>Secondary</u>	<u>Tertiary</u>	<u>Secondary as Pct. Of Primary</u>
2013-14	\$1,930,000	\$1,090,654	\$536,519	56.5%
2014-15	1,930,000	1,096,593	531,883	56.8
2015-16	1,930,000	1,101,448	546,173	57.1
2016-17	1,930,000	1,146,821	558,546	59.4
2017-18	1,930,000	1,172,875	573,439	60.8
2018-19	1,930,000	1,241,233	594,939	64.3
2019-20	1,930,000	1,329,139	621,416	68.9
2020-21	1,930,000	1,451,514	656,434	75.2
2021-22	1,930,000	1,563,771	715,267	81.0
2022-23	1,930,000	1,722,650	754,823	89.3

6. Table 3 shows the aid rates that resulted on each of the three tiers for a district with \$400,000 in property value per pupil and for a district with \$800,000 in property value per pupil in 2013-14 and 2022-23. Because the difference between the primary and secondary guarantees was smaller in 2022-23 than it was in 2013-14, the difference between the primary and secondary aid rates was smaller as well. Over the 10 years, the difference between the two aid rates declined by 13.5 percentage points for a district with \$400,000 in property value per pupil and by 26.9 percentage points for a district with \$800,000 in property value per pupil.

TABLE 3
Example of District Aid Rates at Each Tier

	<u>2013-14</u>	<u>2022-23</u>
<i>District with \$400,000 in property value per pupil</i>		
Primary	79.3%	79.3%
Secondary	63.3	76.8
Tertiary	25.4	47.0
Diff. between primary and secondary rates	15.9	2.5
<i>District with \$800,000 in property value per pupil</i>		
Primary	58.5	58.5
Secondary	26.6	53.6
Tertiary	-49.1	-6.0
Diff. between primary and secondary rates	31.9	5.0

7. There is no data available at this time to predict what the secondary and tertiary guarantees will be in either of the next two years. These guarantees will be determined by the amount of funding appropriated as well as enrollments, costs, and property valuations in each year.

8. As an illustration, however, if the 2023-24 general school aid funding amount under the bill had been provided in 2022-23, the secondary guarantee would have been \$1,856,394 per member, which would have been 96.2% of the primary guarantee. If the 2024-25 funding amount under the bill had been provided in 2022-23, the secondary guarantee would have been \$2,295,085 per member, which would have been 118.9% of the primary guarantee. The primary and secondary guarantees would have been equal if an additional \$344.8 million had been appropriated for general school aids in 2022-23.

9. Because the secondary aid rates are becoming nearly equal to the primary aid rates, the equalization formula could be viewed as a de facto two-tier formula. To simplify the formula to reflect this, the Committee could choose to eliminate the primary tier and restore a two-tiered formula. [Alternative 1]

10. If a two-tier formula without the primary tier had been used to calculate general aid in 2022-23, 321 districts would have received more aid under the alternative compared to current law,

while 46 districts would have received less aid. Aid to 54 districts would have remained unchanged. In total, \$221,000 in aid (0.004% of total net general aid payments) would have been redistributed under this alternative.

11. In 2022-23, 19 school districts are affected by the primary aid hold harmless provision of the equalization aid formula. Under current law, these districts, which have relatively high property value per member, are entitled to the amount of aid generated at the primary level.

12. Of those 19 districts, 17 received special adjustment aid in addition to the aid generated at the primary tier of the formula in 2022-23. Thus, these districts' aid amounts would not have been affected if a two-tiered formula without a primary tier had been used to distribute aid in 2022-23, because they would still have received 85% of their prior year general school aid payment. Under a two-tiered formula without a primary aid tier and hold harmless, however, these districts could eventually lose aid compared with payments they would have received under the current three-tiered formula, if the 85% special adjustment aid payment is at some point less than the primary aid entitlement the districts would have been eligible for under the current formula.

13. Another option to address the issue of the primary and secondary guarantees becoming nearly equal would be to maintain the three-tiered formula and increase the primary guarantee. [Alternative 2] When the primary tier was first used in the equalization aid calculation in 1996-97, the primary guarantee was about 3.5 times the secondary guarantee. That ratio would have resulted in a primary guarantee of approximately \$6,000,000 per pupil had it been used in the 2022-23 aid calculation.

14. If the primary guarantee had been set at \$6,000,000 per pupil for the calculation of general aid in 2022-23, 59 districts would have received more aid under the proposal compared to current law, while 344 districts would have received less aid. Aid to 18 districts would have remained unchanged. In total, \$10.8 million in aid (0.2% of total net general aid payments) would have been redistributed under this alternative.

15. DPI is statutorily required to prepare general aid distributions by July 1 and October 15 of each year, using the most accurate data available. Given the uncertainty as to whether the biennial budget will be enacted before or after July 1, the alternatives to modify the formula are specified to apply beginning with aid paid in the 2024-25 school year.

16. The Committee could also choose to take no action at this time. [Alternative 3] If additional funding is not appropriated for general school aids, or if any increase in funding is relatively small, it reduces the likelihood that the secondary guarantee would exceed the primary guarantee in the next biennium. Even if future funding levels do create this situation, the formula would still be able to distribute aid, albeit with a distortion that reduces the impact of the primary tier.

ALTERNATIVES

1. Delete the primary tier of the equalization aid formula, beginning with aid paid in the 2024-25 school year.

2. Set the primary guarantee at \$6 million per member for K-12 districts, adjusted proportionately for K-8 and UHS districts, beginning with aid paid in the 2024-25 school year.
3. Take no action.

Prepared by: Russ Kava