

During public hearings, the Commission heard testimony regarding the negative tertiary aid feature of the equalization aid formula.

A major objective of the formula is tax base equalization. The three-tiered 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.

On the primary tier, for the first \$1,000 of aidable costs per pupil, the state provides a primary guarantee of \$1,930,000 per pupil. The amount of cost aided on the secondary tier is determined by the secondary cost ceiling, which was \$9,619 per pupil in the 2017-18 aid year. The secondary cost ceiling is set at 90% of the prior year statewide average cost per pupil. The secondary guarantee (\$1,172,875 per pupil in aid year 2017-18) is set annually at the amount that mathematically allows all of the appropriated funding to be distributed. All costs above the secondary cost ceiling are aided at on the tertiary tier. The tertiary guarantee is set at the statewide average equalized value per pupil, which was \$573,439 per pupil in aid year 2017-18. By law, negative tertiary aid can reduce positive secondary aid, but not positive primary aid.

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 hold harmless provisions that would result in no aid change on additional costs.

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 would mean that its aid would likely be unaffected, meaning it would have to levy only the \$100 raised.

Several alternatives exist to address this discontinuity between above-average districts and very high-value districts. The formula could be modified to specify that additional expenditures resulting from a referendum (either debt service, operating, or both) would be excluded from aidable costs if the result of the exclusion would be an increase in a district's aid. This alternative,

in other words, would 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.

Other changes could be made in the formula to address negative tertiary aid more generally. The secondary cost ceiling under the formula could be set at 100%, rather than 90%, of the statewide average aidable cost per pupil. This would result in more costs being aided at the more generous secondary tier. Had this option been effective for the 2017-18 aid year, 245 districts would have received more aid, 113 districts would have received less aid, and 64 districts would have had their aid unchanged. A total of \$56.5 million in funding would have been redistributed among districts, which is 1.2% of the \$4,584.1 million appropriated for general aid.

Another option would be to create a secondary aid hold harmless, similar to the current law primary aid hold harmless. This would mean that negative tertiary aid could not reduce positive secondary aid. This would maintain a negative aid concept but address the discontinuity described above. Had this option been effective for the 2017-18 aid year, 74 districts would have received more aid, 287 districts would have received less aid, and 61 districts would have had their aid unchanged. A total of \$59.9 million in funding would have been redistributed among districts, which is 1.3% of the funding appropriated.

ALTERNATIVES

1. Recommend that any additional costs generated by a referendum (debt, operating, or both) would be excluded from aidable cost for negative tertiary aid districts.
2. Recommend that the secondary cost ceiling be set at 100%, rather than 90%, of the prior year average aidable cost per pupil.
3. Recommend that a secondary aid hold harmless be added to the formula.