



## Legislative Fiscal Bureau

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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