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

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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]

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

| | Aid Redistribution | | Districts' Aid Under Alternative Compared to Current Law | | |
	Amount (in Millions)	% of Total Net Payments	More Aid	Less Aid	No Change
$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