



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #498

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

[LFB 2021-23 Budget Summary: Page 460, #4]

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.

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 2020-21, 48 districts were eligible for \$7.6 million in special adjustment aid, excluding prior year aid adjustments and the separate provisions for consolidated districts. 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.

6. The budget bill would specify that special adjustment aid would be calculated based on 90% of a district's prior year general aid payment for the distribution of general aid in the 2021-22 and 2022-23 school years.

7. General school aid is calculated using prior year data on equalized values, aidable costs, and enrollment. To the extent that any one-time cost and enrollment changes specific to the COVID-19 pandemic for the 2020-21 school year could lead to relatively large changes in the factors used to calculate general aid from the 2019-20 to the 2020-21 school year, and then from the 2020-21 school year to the 2021-22 school year, it could be viewed as appropriate to increase the special adjustment aid threshold for the two affected aid years.

8. Any changes in costs and enrollments would not directly affect a district's aid payment, but would work through the calculation of aid under the formula. The impact for most districts would depend on the changes in the equalized value per pupil and the aidable cost per pupil for that district, as well as the changes in equalized value per pupil and aidable cost per pupil relative to the statewide average equalized value per pupil and aidable cost per pupil.

9. Information is not available to estimate the 2021-22 or 2022-23 general aid distributions. However, as an illustration of the potential effects of a change, had the 2020-21 aid distribution been calculated with the 90% threshold for special adjustment aid, 58 districts would have received more aid, 353 districts would have received less aid, and 10 districts would have had their aid unchanged. A total of \$2.8 million in funding would have been redistributed among districts, which is 0.1% of the total net general aid payments. A total of 59 districts would have been eligible for \$10.5 million

in special adjustment aid (compared to 48 districts eligible for \$7.6 million under current law). It is not clear, however, how indicative the 2020-21 simulation would be for the 2021-22 or 2022-23 aid runs, given the unique situation created by the pandemic that was not fully incorporated in the 2020-21 distribution.

10. Instead of changing the special adjustment threshold for two years, the Committee could choose to change the threshold for 2021-22 only. Once complete and audited information for the 2021-22 aid run is available in October and the conditions under which schools are operating for the 2021-22 school year are better known, the Legislature could assess whether a similar change is warranted for 2022-23 and pass separate legislation if needed.

11. The Committee could also choose to maintain the current law 85% threshold, as it has been used as the hold harmless in the formula for nearly two decades, in the absence of a large reduction in general aid funding. Further, 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.

ALTERNATIVES

1. Specify that special adjustment aid would be calculated based on 90% of a district's prior year general school aid payment for the distribution of general aid in the 2021-22 and 2022-23 school years.

2. Specify that special adjustment aid would be calculated based on 90% of a district's prior year general school aid payment for the distribution of general aid in the 2021-22 school year only.

3. Take no action.

Prepared by: Russ Kava
Attachment

ATTACHMENT

2020-21 Special Adjustment Aid Eligibility

<u>School District</u>	<u>Aid Eligibility</u>	<u>School District</u>	<u>Aid Eligibility</u>
Beecher-Dunbar-Pembine	\$66,469	Norris	\$3,452
Big Foot UHS	13,417	North Lake	262,997
Birchwood	6,666	Northern Ozaukee	78,145
Brighton #1	39,926	Northland Pines	25,365
Drummond	12,907	Northwood	1,318
Elcho	11,890	Paris J1	47,937
Elkhart Lake-Glenbeulah	116,857	Pewaukee	3,453,630
Florence	103,043	Phelps	3,144
Fontana J8	3,518	Sevastopol	6,573
Fox Point J2	6,281	South Shore	8,451
Gibraltar Area	2,198	Spooner Area	3,714
Glendale-River Hills	2,081	Stone Bank	8,158
Goodman-Armstrong	36,791	Suring	16,801
Hayward Community	7,192	Swallow	148,403
Kohler	36,059	Three Lakes	11,347
Lake Country	29,396	Twin Lakes #4	13,582
Lake Geneva-Genoa UHS	917,227	Wabeno Area	70,034
Lake Holcombe	63,558	Wausaukee	11,341
Lakeland UHS	21,926	Webster	33,529
Linn J4	2,943	White Lake	88,584
Linn J6	685	Williams Bay	22,921
Maple Dale-Indian Hill	2,553	Winter	26,867
Mequon-Thiensville	21,140	Wisconsin Dells	<u>691,776</u>
Middleton-Cross Plains	1,053,897	TOTAL	\$7,618,087
Minocqua J1	1,398		