



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #506

### **General Aid Calculation for Consolidated School Districts (DPI -- General School Aid and Revenue Limits)**

[LFB 2013-15 Budget Summary: Page 366, #3]

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#### **CURRENT LAW**

Equalization aid and special adjustment aid are funded from the general school aids appropriation. 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. 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. There are three guaranteed valuations used in the equalization formula that are applied to three different expenditure levels which are determined by cost ceilings under the formula. 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.

Under the main type of special adjustment aid, the state provides additional general aid to districts as a hold harmless to limit any year-to-year decline in a district's general aid payment. An eligible district receives a payment equal to the amount needed to make the district's total general aid eligibility equal to 85% of its prior year's general aid payment.

In calculating equalization aid for a consolidated district for the first five years after the consolidation, the cost ceilings and guaranteed valuations in the formula are increased by 15%, which has the effect of providing additional aid to consolidated districts. Consolidated districts are also eligible for special adjustment aid in each of the first five years after consolidation, under which the new district is guaranteed to receive at least as much general aid as the separate districts received in the year prior to consolidation. If the consolidated district's general aid eligibility in any of those five years is less than that amount, special adjustment aid is paid in the

amount needed to make up the difference. The amounts received by a consolidated district under these provisions are outside of the district's revenue limit.

## **GOVERNOR**

Modify the calculation of general school aid for a consolidated school district by creating aid incentives in the sixth and seventh year after consolidation, in addition to the five years of incentives under current law. Specify that the equalization aid formula factors for a consolidated district be increased by 10% in the sixth year after consolidation and by 5% in the seventh year after consolidation. Specify that the special adjustment aid guarantee for a consolidated district in the sixth year after consolidation be set at an amount equal to 66% of the general aid that the separate districts received in the year prior to consolidation, and that, in the seventh year after consolidation, the guarantee be set at 33% of the general aid that the separate districts received in the year prior to consolidation. Specify that these provisions would first apply to districts that are eligible to receive additional consolidation aid on the effective date of the bill.

## **DISCUSSION POINTS**

1. Consolidation aid was created under 1985 Act 215, under which the hold harmless guarantee that a consolidated district would receive at least as much as general aid as the separate districts was established for three years following the consolidation. The increase in the cost ceilings and guaranteed valuations under the equalization aid formula was established in 1989 Act 114, which provided for a 5% increase in the formula factors for three years. Both of the consolidation aid provisions were extended to five years in 1991 Act 269, which also established a 10% increase in the formula factors. The current law 15% increase in the formula factors was established in 2009 Act 28.

2. Since consolidation aid first became effective, eight consolidations have taken place. Three of those occurred in more recent years. Two K-8 school districts, the Trevor School District and the Wilmot School District became the Trevor-Wilmot School District, beginning in the 2006-07 school year. Beginning in the 2009-10 school year, the Park Falls and Glidden School Districts consolidated to form the Chequamegon School District. The Chetek and Weyerhaeuser School Districts consolidated to form the Chetek-Weyerhaeuser School District, beginning in the 2010-11 school year.

3. Table 1 shows the consolidation aid that was received by the three districts. Both the additional aid received from the increase in the equalization aid formula factors and the special adjustment aid received as a result of the hold harmless related to the aid received as separate districts are shown.

**TABLE 1****Consolidation Aid Received by Three Districts**

	<u>Trevor-Wilmot</u>		<u>Chequamegon</u>		<u>Chetek-Weyerhaeuser</u>	
	<u>Equalization Aid</u>	<u>Special Adjustment Aid</u>	<u>Equalization Aid</u>	<u>Special Adjustment Aid</u>	<u>Equalization Aid</u>	<u>Special Adjustment Aid</u>
2006-07	\$378,500	\$0	N.A.	N.A.	N.A.	N.A.
2007-08	392,500	0	N.A.	N.A.	N.A.	N.A.
2008-09	423,900	0	N.A.	N.A.	N.A.	N.A.
2009-10	621,700	0	\$1,315,200	\$0	N.A.	N.A.
2010-11	639,000	0	1,872,400	140,900	\$1,526,000	\$0
2011-12	N.A.	N.A.	684,000	321,100	2,194,900	0
2012-13	N.A.	N.A.	1,235,200	481,100	1,973,400	0

4. Concerns have been raised that the consolidation aid provisions can create a situation where a district would experience a significant reduction in revenue from the fifth to the sixth year after consolidation. Table 2 shows the consolidation aid received by the indicated district in each year, the district's revenue limit in that year, and the percentage that consolidation aid is of the revenue limit. The consolidation aid shown in the table is outside of the district's revenue limit.

**TABLE 2****Consolidation Aid as Percent of Revenue Limit**

	<u>Trevor-Wilmot</u>			<u>Chequamegon</u>			<u>Chetek-Weyerhaeuser</u>		
	<u>Consolidation Aid</u>	<u>Revenue Limit</u>	<u>Aid as Percent of Limit</u>	<u>Consolidation Aid</u>	<u>Revenue Limit</u>	<u>Aid as Percent of Limit</u>	<u>Consolidation Aid</u>	<u>Revenue Limit</u>	<u>Aid as Percent of Limit</u>
2006-07	\$378,500	\$5,623,800	6.7%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2007-08	392,500	6,026,900	6.5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2008-09	423,900	6,260,500	6.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2009-10	621,700	6,386,000	9.7	\$1,315,200	\$8,953,700	14.7%	N.A.	N.A.	N.A.
2010-11	639,000	6,497,900	9.8	2,013,300	8,930,000	22.5	\$1,526,000	\$11,081,400	13.8%
2011-12	N.A.	N.A.	N.A.	1,005,100	8,023,200	12.5	2,194,900	10,192,900	21.5
2012-13	N.A.	N.A.	N.A.	1,716,300	7,530,300	22.8	1,973,400	9,961,900	19.8

5. The bill provisions would provide an additional two years of reduced consolidation aid to smooth out the aid loss over a longer period of time. In an April 23, 2013, letter to the Co-Chairs of Joint Finance, the DOA Secretary requested that the consolidation aid provisions be modified to better reflect the Governor's intent. The requested change was that the 66% provision in the sixth year and the 33% provision in the seventh year be applied to the special adjustment aid amount received by the consolidated district in the fifth year, not to the aid amounts received by the separate districts in the year prior to consolidation.

6. The actual additional consolidation aid amounts for Chequamegon under the bill provisions, with the requested modification, would be based on the special adjustment aid hold harmless, if any, received by the District in the 2013-14 aid year and by the equalization aid formula factors in the 2014-15 and 2015-16 aid calculations. The aid amounts that would be received by Chetek-Weyerhaeuser would be based on that information in the following years. These amounts are not known at this time. To the extent that these districts would receive additional consolidation aid in those years, general aid to other school districts would, in total, be reduced by a corresponding amount.

7. The amount of consolidation aid that is inside, or outside of revenue limits can vary each year depending on the interaction of the standard formula with the additional aid generated by the 15% increase in guarantees and cost ceilings, as well as the consolidation aid hold harmless relating to the aid received by the districts before consolidation. With this many factors in play, it is difficult to predict what amount of aid will be subject to revenue limits in a given year.

8. The Chequamegon School District has a revenue limit enrollment of 771 pupils in 2012-13. Its school levy mill rate is \$7.87 per \$1,000 of equalized value, which is below the statewide average of \$10.19 per \$1,000. Since its formation in 2009-10, it has received a substantial amount of consolidation aid that is outside of revenue limits (ranging from \$1 million to \$2 million annually). Because the District has been losing enrollment (-8.6% in the last three years), it has used this consolidation aid to support its ongoing expenditures, after a number of position and other spending reductions, since its revenue limit has been decreasing due to its declining enrollment. In year six after consolidation, all of its state general aid will be subject to revenue limits, which could reduce its levy by over \$1 million. This would produce a corresponding shortfall in revenues, which could exceed \$1,300 per pupil.

9. The Governor's revised proposal relating to consolidation aid could provide an estimated \$900,000 of additional state aid outside of revenue limits to Chequamegon in year six and \$200,000 in year seven, based on the consolidation aid calculation for 2012-13. While this would provide additional revenue to the District in the near term, it would likely only delay the eventual shortfall in revenues. If the Committee wishes to address this issue in a more permanent manner, it could delete the AB 40 provisions and, instead, provide a recurring revenue limit adjustment in year six for districts currently receiving consolidation aid equal to 75% of the consolidation aid in year five that is received by the district outside of revenue limits. This provision would apply to Chequamegon and Chetek-Weyerhaeuser, and would provide ongoing revenue limit authority to these districts after year five. For these districts, the potential levy increase from this revenue limit adjustment would be largely offset by all of the general aid being subject to revenue limits.

10. To avoid this issue for future consolidations, the Committee could modify current law incentives for school district consolidation to specify that all of the aid would be subject to revenue limits. This would prevent a school district from using one-time aid that is outside of revenue limits to support ongoing operating expenses. If the Committee wishes to provide additional resources to consolidating school districts, it could specify that a consolidating school district would receive a \$250 (or some other amount) per pupil revenue limit adjustment that would remain in its base revenues in future years. This would offer school districts a well-defined incentive

to consolidate under revenue limits, as well as the current law aid incentives for consolidation.

11. It could be argued that it is unnecessary to provide consolidation aid over additional years. Districts currently receiving consolidation aid undertook consolidation at a time when they would have been expecting to receive five years of aid. In addition, consolidation aid was intended to provide an incentive to undertake consolidation and to provide additional financial resources to be able to complete the consolidation without have to reallocate from within the budgets of the separate districts. To the extent that consolidation aid would be used to support the ongoing operations costs of districts, it would arguably be inconsistent with that intent. Further, if a consolidated district needs additional financial resources after consolidation aid has ended, it would have the option of seeking voter approval in a referendum.

## **ALTERNATIVES**

### **A. Consolidation Aid in Years Six and Seven**

1. Approve the Governor's recommendation, as modified, to specify that: (a) the equalization aid formula factors for a consolidated district be increased by 10% in the sixth year after consolidation and by 5% in the seventh year after consolidation; and (b) that the special adjustment aid guarantee for a consolidated district in the sixth year after consolidation be set at an amount equal to 66% of the special adjustment aid received in the fifth year after consolidation as a result of the hold harmless provision related to the separate districts' aid payments, and that, in the seventh year after consolidation, the guarantee be set at 33% of that aid amount.

2. Delete the Governor's recommendation and, instead, specify that school districts currently receiving consolidation aid would receive a recurring revenue limit adjustment in the sixth year after consolidation equal to 75% of the consolidation aid that is outside of revenue limits received by the district in year five (the last year of consolidation aid under current law).

3. Delete provision.

### **B. Separate Revenue Limit Adjustment for Future Consolidations**

1. For future school district consolidations, specify that all consolidation aid would be subject to revenue limits. In addition, in the year a consolidation takes effect, provide a \$250 per pupil adjustment under revenue limits that would remain in the district's base revenues. (If Alternative A1 is selected, specify that A1 would only apply to school districts currently receiving consolidation aid.)

2. Take no action.

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