



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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Joint Committee on Finance

Paper #554

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

[LFB 2019-21 Budget Summary: Page 319, #8]

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.

GOVERNOR

Specify that special adjustment aid would be calculated based on 90% of a district's prior year general aid payment, beginning with the 2020-21 distribution of general school aids.

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 2018-19, 52 districts were eligible for \$11.9 million in special adjustment aid, excluding prior year aid adjustments. 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. To the extent that it is considered desirable to have this hold harmless feature in the formula, the bill provision to increase it could be viewed as appropriate.

6. 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.

7. The effect of this provision can be considered both in isolation and in the larger context of all of the general school aid formula changes proposed in the bill.

8. The bill provision relating to special adjustment aid 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.

9. To the extent that special adjustment aid districts have above-average property value per

pupil and gross levy per pupil, they would tend to be disadvantaged by the reallocation of the school levy tax credit to general school aids under the bill. The special adjustment aid provision, in addition to the minimum aid provision of the bill, could be viewed as a way to offset the reallocation of levy credit funding.

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 special adjustment aid provision is viewed as attempting to benefit the same class of districts as the school levy credit, it may not be necessary to adopt it.

11. In isolation, had the 2018-19 aid distribution been calculated with the 90% threshold for special adjustment aid, 60 districts would have received more aid, 346 districts would have received less aid, and 16 districts would have had their aid unchanged. A total of \$3.7 million in funding would have been redistributed among districts, which is 0.1% of the total net general aid payments. A total of 61 districts would have been eligible for \$16.1 million in special adjustment aid (compared to 52 districts eligible for \$11.9 million under current law).

ALTERNATIVES

1. Approve the Governor's recommendation to specify that special adjustment aid would be calculated based on 90% of a district's prior year general aid payment, beginning with the 2020-21 distribution of general school aids.

2. Take no action.

Prepared by: Russ Kava
Attachment

ATTACHMENT

2018-19 Special Adjustment Aid Eligibility

<u>School District</u>	<u>Aid Eligibility</u>	<u>School District</u>	<u>Aid Eligibility</u>
Bayfield	\$11,907	Northwood	\$13,990
Beecher-Dunbar-Pembine	108,824	Paris J1	69,988
Big Foot UHS	21,445	Pepin Area	78,357
Birchwood	20,324	Phelps	4,352
Brighton #1	147,418	Randall J1	254,392
Chetek-Weyerhaeuser	486,570	Sevastopol	19,761
Drummond	17,864	Siren	118,014
Elcho	16,456	South Shore	8,199
Elkhart Lake-Glenbeulah	139,486	Southern Door	128,007
Erin	109,194	Suring	56,387
Florence	193,515	Swallow	178,334
Fontana J8	4,869	Three Lakes	27,568
Friess Lake	89,680	Tomahawk	406,793
Germantown	142,578	Verona Area	5,126,322
Gibraltar Area	3,042	Wabeno Area	96,932
Goodman-Armstrong	66,010	Washington-Caldwell	197,628
Kettle Moraine	1,078,754	Wausaukee	11,911
Kohler	55,467	Webster	46,407
Lac du Flambeau #1	187,566	Weston	12,224
Lake Country	33,337	White Lake	134,766
Lake Geneva-Genoa UHS	1,288,262	Wild Rose	113,884
Lake Holcombe	103,517	Winter	<u>30,612</u>
Lakeland UHS	30,348		
Linn J4	4,074	TOTAL	\$11,865,403
Linn J6	949		
Maple Dale-Indian Hill	20,319		
Minocqua J1	1,935		
New Berlin	10,281		
North Lake	291,308		
Northland Pines	45,276		