Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2017 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **17-4625/1**	Introduction Number **AB-0803**

Description
excluding costs funded by referenda from shared costs for the purpose of determining general equalization aids for school districts

Fiscal Effect

State:

[ ] No State Fiscal Effect
[ ] Indeterminate

[ ] Increase Existing Appropriations
[ ] Decrease Existing Appropriations
[ ] Create New Appropriations
[ ] Increase Existing Revenues
[ ] Decrease Existing Revenues
[ ] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [ ] No
[ ] Decrease Costs

Local:

[ ] No Local Government Costs
[X] Indeterminate

1. [ ] Increase Costs — [ ] Permissive [ ] Mandatory
2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
4. [ ] Decrease Revenue — [ ] Permissive [ ] Mandatory
5. Types of Local Government Units Affected
   [ ] Towns [ ] Village [ ] Cities
   [ ] Counties [ ] Others
   [X] School Districts [ ] WTCS Districts

Fund Sources Affected

[ ] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

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Fiscal Estimate Narratives

DPI 1/19/2018

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Description excluding costs funded by referenda from shared costs for the purpose of determining general equalization aids for school districts		

Assumptions Used in Arriving at Fiscal Estimate

Under this bill, expenditures from either a school district's general fund or debt service fund that are authorized by an operating or capital referendum that is held after the date on which this bill becomes effective would be excluded from the school district's shared cost, if the exclusion of those expenditures results in a greater amount of equalization aid for the district.

As drafted, the bill requires the exclusion of the current year referendum-derived levy amount from shared costs for use in the general/equalization aid formula. DPI is required to certify general/equalization aid by October 15th each year, using prior year (audited) data for district membership, shared costs, and equalized property values. Districts are required to set their levies by November 1st (and to certify to the appropriate municipality by November 10th). As such, the current year levies are not available to DPI (to apply as an adjustment to shared costs) in time for the October 15th aid certification. Thus, a technical correction to change the reference from "current year" to "prior year" would have to be required to effectively implement the bill. See the technical memo attached to this fiscal estimate.

This estimate is written assuming that technical change described above were in place.

Shared Costs and Equalization Aid (Current Law)

Shared costs are one of the factors used to calculate general school aids and refers to school district expenditures that are aidable through the equalization formula. A school district's shared cost is the sum of the school district's aidable expenditures from its general fund and its debt service fund. It is determined by subtracting certain deductible receipts (which includes state categorical aid, federal aid, and local non-property tax revenue) from the gross cost of a school district's general fund for operating costs and its debt service fund for expenditures for long-term debt retirement. Thus, shared costs (aidable costs) reflect school district expenditures that were paid for with local property taxes and state general/equalization aid. The state's general/equalization aid formula uses prior year shared costs to calculate aid in a given year (in this respect, it is a cost-reimbursement aid).

Shared costs are divided into three levels: primary costs (the first $1,000 per member); secondary costs ($1,001 up to the "secondary cost ceiling", which is set at 90 percent of the statewide average shared costs per member); and, tertiary costs (the per member costs that exceed the secondary cost ceiling). The state aid received for costs at these three levels is referred to as primary, secondary, and tertiary aid, respectively.

A school district is considered to be "negatively aided" if the general/equalization aid formula generates a negative aid figure for the district. This applies to school districts in which the equalized valuation (based on equalized property value per member) exceeds the state guaranteed valuations per member. The primary guarantee valuation is set in statute at $1.93 million per member, and the tertiary guarantee valuation per member is set in statute to equal the statewide average equalized value per member (as such, it changes from year to year, reflecting statewide changes in property value and enrollment). The secondary valuation is set as the aid formula runs to be a value that results in the appropriation for state general aid being fully expended.

In summary, school districts with costs at the tertiary level, that have more property value per member than the statewide average, are negatively aided at the tertiary cost level (negative tertiary aid reduces the secondary aid for which the district is eligible). A district can also be negatively aided at the secondary cost level if its property value per member exceeds the secondary guaranteed valuation. Regardless, under state law, a district's negative aid cannot reduce the primary aid for which the district is eligible under the state equalization/general aid formula; thus, some districts receive only the aid generated at the primary level ("primary aid only" districts).

Local Fiscal Impact:

General Aid

School districts with higher than average property wealth (per member) and with prior year shared costs in excess of 90 percent of the state average generate "negative aid" on their tertiary costs. These "negative tertiary districts" (116 of the state's 422 school district in 2017-18) have their secondary aid reduced by the amount of negative aid generated at the tertiary level. State law provides that no district's general aid shall decrease by more than 15 percent from one year to the next and provides special adjustment aid (within the general aid formula) to accomplish this guarantee. In addition to the previously mention 116 negatively aided districts in 2017-18, there are 55 districts for which negative aid was generated at the tertiary level, but for which the decrease in equalization aid (from the prior year) was large enough to qualify the 55 districts for special adjustment aid.

By excluding referenda-derived revenue from shared costs, as proposed under the bill, a negatively-aided school district would receive more state equalization aid, compared to current law, as a result of passing a referendum to increase operating and capital expenditures; this is the result of fewer costs being subject to negative aid at the tertiary level. The bill permits the exclusion for shared costs only for districts that would see an increase in aid as a result of the exclusion. That is, districts that have referendum-derived levy authority but that are not negatively aided would not have the exclusion applied to their shared costs.

Because the state general/equalization aid appropriation is a sum certain appropriation, there would be a redistribution of state general/equalization aid as a result of the bill, as compared to current law. An increase in state general/equalization aid for the districts that would be subject to the exclusion under the bill would be offset by decreases in state aid for those districts with property wealth per member below the state average, and that are not subject to the exclusion under the bill, compared to current law.

For 2017-18*, there are 20 districts that receive no state equalization aid, due to extremely high property wealth per member (16 of these districts do receive special adjustment aid, which ensures a district's state general aid decreases by no more than 15% from one year to the next, and four districts receive no general aid at all). These districts would be unaffected by this bill. Additionally, there are 26 districts for which the aid formula generated negative aid at the secondary cost level, but are eligible for aid generated at the primary level ("primary aid only" districts). These districts are very unlikely to be affected by the bill.

*Figures exclude the Norris school district.

School Property Taxes

State general/equalization aid is received under a district's revenue limit. Thus, an increase in state general/equalization aid results in a reduction in districts' property taxes, all other things being equal. Conversely, a decrease in state general/equalization aid likely results in higher property taxes, as compared to current law.

As compared to current law, the bill would result in a reduction in property taxes in negatively-aided (higher property value) districts that pass referenda, and a potential increase in property taxes in districts that are not negatively aided (i.e., lower property value districts). Actual school levy impacts would depend on whether school boards choose to fully (or partially) utilize the allowable revenue authority provided under revenue limits.

State Fiscal Impact:

Because the bill does not change appropriations for state general/equalization aid, there would be no impact on the state's general fund as a result of this bill.

Long-Range Fiscal Implications

The bill makes the exclusion from shared costs first effective for referenda that are passed after the effective date of the bill. The first year for which a district could obtain additional revenue authority via referendum would be for the 2018-19 school year (even if a referendum were passed in a February or April

2018 election, the first opportunity to levy would be the fall of 2018 for the 2018-19 school year). As noted previously, the provisions of the bill could be implemented only if prior year (as opposed to current year) referendum-derived levy amounts are excluded from shared costs**. If the bill is amended to refer to prior year referendum-derived levy amounts, the first year that the bill would impact the general/equalization aid calculations would be the 2019-20 school year (based on 2018-19 data).

Additionally, because the bill's provisions would be effective for districts that have passed a referendum after the effective date of the bill, the exclusion of referendum-derived levy amounts from shared costs would not apply to a district that has already obtained authority to levy in future years (i.e., from a multi-year referenda passed prior to the bill's effective date). For example, a district that passed a five year non-recurring referendum in the fall of 2017, to levy in each of the 2017-18 through 2021-22 school years, would not be subject to the exclusion under the bill, even if the exclusion would result in an increase in state general/equalization aid for that district.

**The amounts levied by school districts for the 2018-19 school year will be determined when districts set their levies (by November 1st) and certify to municipalities (by November 10th) – too late for the October 15th certification of 2018-19 general aid.