Introduction to Cost Factor Adjustments

House Committee on Ways and Means

Catherine Benham and Julia Richter

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Overview

Broad overview of cost factor adjustments

Cost factor adjustments in words

- Like pupil weights, cost factor adjustments account for potential higher costs to schools with certain demographic characteristics
- Cost factor adjustments are set payments allocated to each district to account for the portion of students in a certain demographic category
  - Cost factor adjustment categories correspond to the same categories used for pupil weights and are calculated with the same base student counts
  - Cost factor adjustments are offsetting revenues for school districts

Cost factor adjustments *(proposed by Kolbe et. al., January 2022)*

	Cost factor	FY2023 Cost Adjustment
1	Student Need	
2	Poverty	$10,480
3	ELL	$25,335
4	Grade Level	
5	Middle School (6-8)	$3,663
6	High School (9-12)	$3,968
7	Small School	
8	<100 pupils	$2,137
9	100-250 pupils	$712
10	Population density (Persons per Square Mile)	
11	<36 per square mile	$1,526
12	36-<55 per square mile	$1,221
13	55-<100 per square mile	$712

Reminder: Calculating tax rates under current law

- Recall calculation of tax rates in current law:

$$Spending\ adjusted\ property\ tax\ rate = \$1.00 \times \frac{per\ pupil\ spending}{property\ yield}$$

$$Spending\ adjusted\ income\ tax\ rate = 2\% \times \frac{per\ pupil\ spending}{income\ yield}$$

$$Per\ pupil\ spending = \frac{Education\ Spending}{Equalized\ pupils}$$

$$Education\ Spending = Total\ voted\ education\ budget^{*} - Federal\ categorical\ aid - State\ categorical\ aid - Tuition\ revenues - Prior\ year\ surpluses\ or\ deficits - Reserve\ funds$$

Note:* This includes the voter approved budget plus any separately warned articles approved by the voters

Calculating tax rates: Changes with cost factor adjustments

- Cost factor adjustments reduce education spending
  - Cost factor adjustments are "taken off the top" of the Education Fund

$$
\begin{aligned}
&Education\ Spending = \\
&Total\ voted\ education\ budget^{*} \\
&-\ Cost\ factor\ adjustments \\
&-\ Federal\ categorical\ aid \\
&-\ State\ categorical\ aid \\
&-\ Tuition\ revenues \\
&-\ Prior\ year\ surpluses\ or\ deficits \\
&-\ Reserve\ funds
\end{aligned}
$$

- Equalized Pupils are no longer used
  - Because cost factor adjustments would account for higher cost students, there would be no pupil weights and no equalized pupils
  - Instead of Equalized Pupils, Long-term Average Daily Membership (LT ADM) would be used to calculate tax rates

Note: * This includes the voter approved budget plus any separately warned articles approved by the voters

Calculating tax rates with cost factor adjustments

- Cost factor adjustments directly affect per pupil spending through LT ADM and Education Spending
- Cost factor adjustments also indirectly affect the yield

$$Spending\ adjusted\ property\ tax\ rate = \$1.00 \times \frac{per\ pupil\ spending}{property\ yield}$$

$$Spending\ adjusted\ income\ tax\ rate = 2\% \times \frac{per\ pupil\ spending}{income\ yield}$$

$$Per\ pupil\ spending = \frac{Education\ Spending}{LT\ ADM}$$

$$Education\ Spending = Total\ voted\ education\ budget^{*} - Cost\ factor\ adjustments - Federal\ categorical\ aid - State\ categorical\ aid - Tuition\ revenues - Prior\ year\ surpluses\ or\ deficits - Reserve\ funds$$

Note: * This includes the voter approved budget plus any separately warned articles approved by the voters

Example

Example: *District A and District B*

- 2 Districts – District A and District B[1]
- Both districts have the same total voted education budget, the same level of categorical aid, and the same LT ADM
- The districts have different numbers of pupils within cost factor categories

		District A	District B
1	Long-term Average Daily Membership (LT ADM)	500	500
2	Total voted education budget[2]	$ 12,000,000	$ 12,000,000
3	Offsetting revenues (categorical aid, etc.)	$ 2,000,000	$ 2,000,000
4	Cost factor adjustments	*Calculated on next slides*	
5	Local Education Spending	*Calculated on next slides*	

Notes: 1) These districts are fictional, and have been created solely for exemplary purposes, 2) This includes the voter approved budget plus any separately warned articles approved by the voters

Example: *Calculating cost adjustments*

			District A		District B	
1	**Cost factor**	**FY2023 Cost adjustment**	**Number of LT ADM**	**Cost factor adjustment**	**Number of LT ADM**	**Cost factor adjustment**
2	Student Need					
3	Poverty	$10,480	15	$157,200	55	$ 576,400
4	ELL	$25,335	5	$126,675	2	$50,670
5	Grade Level					
6	Middle School (6-8)	$3,663	22	$80,586	22	$ 80,586
7	High School (9-12)	$3,968	50	$198,400	50	$ 198,400
8	Small School (based on school enrollment)					
9	<100 pupils	$2,137	0	$ -	200	$ 427,400*
10	100-250 pupils	$712	0	$ -	0	$ -
11	Population density (Persons per Square Mile)					
12	<36 per square mile	$1,526	0	$ -	500	$763,000
13	36-<55 per square mile	$1,221	0	$ -	0	$ -
14	55-<100 per square mile	$712	0	$ -	0	$ -
15	**Total cost factor adjustments:**			**$562,861**		**$2,096,456**

* This example assumes that there are >2 schools in this district within the small school (<100 pupils) cost factor category

Example: *District A and District B cont.*

		District A	District B
1	Total voted education budget*	$12,000,000	$12,000,000
2	All offsetting revenues *(categorical aid, etc.)*	$2,000,000	$2,000,000
3	Cost factor adjustments *(Calculated on previous slide)*	$562,861	$2,096,456
4	Local education spending *(Local ed spending = Line 1 – Line 2 – Line 3)*	$9,437,139	$7,903,544
5	LT ADM	500	500
6	Local education spending per pupil *(Local ed spending per pupil = Line 4 / Line 5)*	$18,874	$15,807

- *Assume:*
  - Both districts have the same total voted budget and use cost factor adjustments to reduce tax rates
  - Statewide property yield = $11,000
  - Statewide income yield = $13,500

Note: * This includes the voter approved budget plus any separately warned articles approved by the voters

Example: *Calculating tax rates*

Recall:

$$Spending\ adjusted\ property\ tax\ rate = \$1.00 \times \frac{per\ pupil\ spending}{property\ yield}$$

$$Spending\ adjusted\ income\ tax\ rate = 2\% \times \frac{per\ pupil\ spending}{income\ yield}$$

District A:

$$Spending\ adjusted\ property\ tax\ rate = \$1.00 \times \frac{\$18{,}874}{\$11{,}000} = \$1.72$$

$$Spending\ adjusted\ income\ tax\ rate = 2\% \times \frac{\$18{,}874}{\$13{,}500} = 2.80\%$$

District B:

$$Spending\ adjusted\ property\ tax\ rate = \$1.00 \times \frac{\$15{,}807}{\$11{,}000} = \$1.44$$

$$Spending\ adjusted\ income\ tax\ rate = 2\% \times \frac{\$15{,}807}{\$13{,}500} = 2.34\%$$

In summary

- *What are cost factor adjustments?*
  - Cost factor adjustments are set payments allocated to each district to account for the portion of students in a certain demographic category

- *How would the calculation of tax rates change with cost factor adjustments?*
  - Many aspects would not change
    - Districts would still have voter approved school budgets
    - Districts would still subtract offsetting revenues from total voted education budget
    - Remaining education spending per pupil would still be funded through spending-adjusted tax rates
  - Changes to current law:
    - Cost factor adjustments would be included in offsetting revenues
    - Education spending per pupil would be calculated with Long-term Average Daily Membership (LT ADM), and not with equalized pupils

Questions?