Spending Above Foundation Amount

Senate Committee on Finance

Julia Richter, Senior Fiscal Analyst, JFO

April 23, 2025

The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this presentation is meant to provide information for legislative consideration, not to provide policy recommendations

Outline

- Spending above a foundation amount
- Spending above the Education Opportunity Payment in H.454 as passed by the House

Spending Above the Foundation Amount

Spending above a foundation amount

- In the creation of a foundation formula, policy needs to determine: ***Are school districts allowed to spend above the Foundation Amount?***
- If school districts may spend above the foundation amount, there are policy choices regarding *the spending* above the foundation amount, and *how that spending is raised*

The Amount and Structure of Spending Above the Foundation Amount

If school districts are allowed to spend above the Foundation Amount there are multiple policy questions:

- Is there a cap on how much districts can spend above?
  - If so, what is the cap and how is it calculated? Is it based on student count, weighted student count, district budget, or something else?
  - Are there certain limits or parameters for spending above?
- Is there a penalty or incentive for spending above the Foundation Amount? If so, what is it?
- To raise the funds spent above, is there an equalization mechanism? If so, what is it?

Equalization Mechanisms for Raising Above the Foundation Formula

- *If* school districts are allowed to spend above the Foundation Amount, and *if* the raising of those funds are equalized across the State, there are multiple equalization constructs to consider
- The Administration proposed a "State Guarantee" mechanism
  - For districts with lower taxing capacity, the Education Fund would cover a portion of the district spending above the foundation
  - The mechanism would equalize lower taxing capacity districts up to the median district taxing capacity
  - All else equal, the cost of the State Guarantee would be raised from statewide property taxes
- H.454 as passed by the House proposed a "Supplemental District Spending" mechanism
  - The following slides outline the structure of this mechanism

Spending Above the Education Opportunity Payment in H.454 As Passed by the House

Overview of Supplemental District Spending in H.454 As Passed by the House

- H.454 as Passed by the House would permit school districts to decide to spend up to 10% of their Education Opportunity Payment in Supplemental District Spending
- The bill creates a system where all school districts can raise the same amount above the foundation formula at the same tax rate, regardless of their property wealth
  - Corresponds with the amount that could be raised on 100% on the Grand List of the school district with the lowest taxing capacity
  - This would be done using a supplemental district spending yield

Example Calculation of the Supplemental District Spending Yield

Calculation of the Supplemental District Spending Yield

- The equalization mechanism would use a supplemental district spending yield
  - This yield would be calculated different from the current law yield calculation
- The supplemental district spending yield would be calculated by the Department of Taxes in the December 1 letter
- The following slides are an illustration of how that yield would be calculated
  - Districts would not need to calculate the yield themselves

Step 1 – Calculate Each Districts' Grand List Per Pupil

- A district's Grand List per pupil is calculated by dividing its equalized Grand List by its long term average daily membership (LT ADM)

$$District's\ Grand\ List\ Per\ Pupil = {District\ Equalized\ Grand\ List}/{District\ LT\ ADM}$$

- In this example, assume the following:

Row #		**District A**	**District B**	**District C**
1	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
2	**LT ADM**	100	100	50
3	**Grand List per pupil** *(Calculated as Row 1/Row 2)*	$1,000,000	$2,000,000	$2,000,000

Step 2 – Determine the School District with the Lowest Taxing Capacity

- H.454 As Passed by the House defines "school district with the lowest tax capacity" as *"the school district anticipated to have the lowest aggregate equalized education property tax grand list of its municipal members per long-term membership"*
- In this example, District A would be the school district with the lowest taxing capacity:

Row #		**District A**	**District B**	**District C**
1	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
2	**LT ADM**	100	100	50
3	**Grand List per pupil** *(Calculated as Row 1/Row 2)*	**$1,000,000**	$2,000,000	$2,000,000

Step 3 – Calculate the Supplemental District Spending Yield

- The supplemental district spending yield is the amount of property tax revenue per LT ADM that would be raised in the school district with the lowest taxing capacity at a $1.00 tax rate per $100 of property value

Row #		**Calculation**	**District A**
1	**Total Equalized Grand List Value**	*Assumed on Slide 11*	$100,000,000
2	**Tax Rate per $100 of equalized property value**	*In H.454 As Passed House*	$1.00
3	**Total revenue raised**	*(Line 1/$100) * Line 2*	$1,00,000
4	**LT ADM**	*Assumed on Slide 11*	100
5	**Property tax revenue per LTADM**	***Line 3 / Line 4***	**$10,000**

- In this example, the District A could raise $10,000 under this definition, so the supplemental district spending yield would be $10,000

Example of Districts Spending Above the Foundation Formula

The Supplemental District Spending Tax Rate Would Depend on a District's Supplemental District Spending Per Pupil

- If districts spend above the foundation amount, their supplemental district spending tax rate would be calculated based on two factors:
  1. The district's supplemental district spending per pupil; and
  2. The supplemental district spending yield

- Let's assume the same parameters from earlier slides:

Example districts

Row #		**District A**	**District B**	**District C**
1	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
2	**LT ADM**	100	100	50
3	**Grand List per pupil** *(Calculated as Row 1/Row 2)*	$1,000,000	$2,000,000	$2,000,000

Supplemental district spending yield= $10,000

Calculating a District's Supplemental District Spending per Pupil

- Let's assume each district decided to spend an additional $2,000 per pupil:

Row #		**District A**	**District B**	**District C**
1	**Supplemental district spending**	$200,000	$200,000	$100,000
2	**LT ADM**	100	100	50
3	**Supplemental district spending per pupil** *(Calculated as Row 1/Row 2)*	**$2,000**	**$2,000**	**$2,000**

Note: while all districts have the same supplemental district spending per pupil, District C has lower total supplemental district spending than District A and B. This is because District A has fewer pupils.

Calculating an Supplemental District Spending Tax Rate

- To calculate the supplemental district spending tax rate, a district's supplemental district spending per pupil is divided by the supplemental district spending yield
  - Because each district has the same supplemental district spending per pupil, each district has the same supplemental district spending tax rate

Row #		**District A**	**District B**	**District C**
1	**Supplemental district spending**	$200,000	$200,000	$100,000
2	**LT ADM**	100	100	50
3	**Supplemental district spending per pupil**	$2,000	$2,000	$2,000
4	**Supplemental district spending yield** *(Calculated on slide 9)*	$10,000	$10,000	$10,000
5	**Supplemental district spending rate per $100 of property value** *(Calculated as Row 3/Row 4)*	$0.20	$0.20	$0.20

Calculating the Amount Raised by the Supplemental District Spending Tax Rate

- To calculate the amount raised by the supplemental district spending tax rate, the rate would be applied to the district's total equalized Grand List

Row #		**District A**	**District B**	**District C**
1	**Supplemental district spending rate per $100 of property value**	$0.20	$0.20	$0.20
2	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
3	**Amount raised from supplemental district spending rate**	**$200,000**	**$400,000**	**$200,000**

Determining the Amount That Stays in the Supplemental District Reserve

- Recall that each district decided to spend an additional $2,000 per pupil.
  - This meant each district had the same tax rate
  - Because of the equalization, districts raised *more* than their total supplemental district spending

Row #		**District A**	**District B**	**District C**
1	Amount raised from supplemental district spending rate	$200,000	$400,000	$200,000
2	Supplemental district spending	$200,000	$200,000	$100,000
3	**Amount remaining in the supplemental district spending reserve** *(Calculated as Row 1 – Row 2)*	**$0**	**$200,000**	**$100,000**

This returns to districts as their supplemental district spending

This stays in the supplemental district spending reserve

Questions?