



HB 64 (Substitute) Formula Methodology

By: the PFR Team

Remembering our History

In 2009 the state funding formula used a property valuation multiplied by a millage charge-off amount; that charge-off amount was 23 mills. The calculation below is an example of a 2009 district without any impact from other funding categories such as “building blocks,” “PBA,” and “Parity Aid.” Some of you will remember all those fantastic add-ons, right?

2009 Charge-Off Example:

	Formula ADM	2,483
	Formula Aid Per Pupil	\$5,732
	Total Formula Aid for District before Charge-off	\$14,232,556
	District Property Valuation	\$262,041,036
	State Funding Less Charge-off (Valuation x 0.023) 23 mills	(\$6,026,944)
	Net State Share of Funding in Dollars	\$8,205,612
	Net State Share as Percentage of Total Formula	57.7%

The calculation generated a state share percentage that was then applied to special education categorical funding, and other types of revenue. Why the history lesson? Well, Substitute HB 64 re-introduces a charge-off to calculate a district’s state share percentage and has added a variable millage factor.

HB 64 Variable Millage Factor

In the 2009 example above, the charge-off millage was 23 mills for all districts. In today’s Substitute HB 64, the charge-off millage is variable using 20 mill as a basis factored by the district’s median income relative to the state’s median income. There are three components to calculating the millage that will be used for your district’s charge-off calculations.

1. If your district’s **median income is less than the state’s median income** then your millage will be reduced downward from 20 mills. For example, if your district’s median income is \$27,000 and statewide median is \$33,000, your district is clearly under the state’s median. The result is a state share of funding of 70.73%, this state share percentage will be applied to calculate the district’s special education and other categories of special funding. The key is that the district’s charge-off millage is 16.36 mills, and implies that this district does not have the local taxpayer income to support a higher charge-off millage.



Example of district with median income less than the state's:

Formula ADM		2,483
Core Formula Aid Per Pupil		\$5,900
Total Formula Core Aid		\$14,649,700
District Property Valuation	\$262,041,036	
District Median Income	\$27,000	
Statewide Median Income	\$33,000	
District Median Income Percentage	81.82%	
Charge-off Millage Basis	20	
District's Charge-off Millage (Median Income % x 20)	16.36	
District Charge-off Amount		(\$4,287,944.23)
State's Share of Total Formula Core Aid \$\$\$		\$10,361,755.77
State Share % of Total Formula Core Aid		70.73%

Next, let's look at a district's how has high median income relative to the state.

- If a district' **median income is 1.5 times the statewide median**, then the district's charge-off millage is set at the maximum which is 23.15 mills in 2016. This district cannot have a charge-off millage higher than 23.15 mills. The district receives less state funding of core formula aid, and the state share of core formula aid drops to 58.59% for application to special education and other funding.

Example of district with median income 1.5 times the state's:

Formula ADM		2,483
Core Formula Aid Per Pupil		\$5,900
Total Formula Core Aid		\$14,649,700
District Property Valuation	\$262,041,036	
District Median Income	\$50,000	
Statewide Median Income	\$33,000	
District Median Income Percentage	151.52%	
Charge-off Millage Basis	20	
District's Charge-off Millage (Median Income % x 20) Maximum 23.15	23.15	
District Charge-off Amount		(\$6,066,249.98)
State's Share of Total Formula Core Aid \$\$\$		\$8,583,450.02
State Share % of Total Formula Core Aid		58.59%

We have saved the best for last! What about a district whose median income is between the statewide median and 1.5 times the statewide median?

- In the final example, the district's **median income is between the statewide median and 1.5 times the statewide median income**, or let's say 129.39% of the statewide median. The proposed Sub HB 64 formula adjusts this income ratio downward before applying it to the 20 mill basis. You would expect, since this district's median income is greater than the statewide median, that the millage charge-off would be greater than 20 mills. You would also expect that the charge-off millage would be less than the maximum (example 2) of 23.15 mills. The district's charge-off millage calculation is 21.83 and results in a state share of 60.95% - less than the district in example 2 with high median income and more than the district in example 1 with low median income.



Example of district with median income between the state's and 1.5 times the state's:

Formula ADM		2,483
Core Formula Aid Per Pupil		\$5,900
Total Formula Core Aid		\$14,649,700
District Property Valuation	\$262,041,036	
District Median Income	\$42,698	
Statewide Median Income	\$33,000	
District Median Income Percentage	129.39%	
Adjusted Income Factor $((1.2939-1) \times (.315 / .05)) * .5 + 1$	1.09	
Charge-off Millage Basis	20	
District's Charge-off Millage (Median Income % x 20) Maximum 23.15	21.83	
District Charge-off Amount		(\$5,721,258.34)
State's Share of Total Formula Core Aid \$\$\$		\$8,928,441.66
State Share % of Total Formula Core Aid		60.95%

Conclusion

It is all about state share of your funding and the long range implications. For example, there is still a phase-in component that will face the district in example 2, in other words they can expect their state share percentage to drop in 2017 with the same variables in 2016. Substitute HB 64 keeps the concept of median income relativity, but drops the concept of valuation relativity by using a charge-off. In other words, your state share will not change relative to your districts per pupil valuations as compared to other districts. It could, however, change as a result of changes in your district taxpayer median income relative to the statewide median income.

Substitute HB 64 introduces our fifth formula in about 10 years. Keep in mind that it is only a bill and PFR will work to keep good information flowing to you as the legislative process evolves.