Targeted Assistance and Capacity Aid

Targeted assistance and capacity aid are two components of the foundation formula. Together they provide additional funding to school districts with lower capacities to raise local revenues and small school districts with relatively low total property value, respectively. For FY 2019 these components comprised 13.8% of total state foundation aid after the formula's cap was applied, totaling $1.1 billion.

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Targeted assistance

As shown in the State Share Index and Opportunity Grant *Members Brief*, school districts' capacities to raise local revenue vary widely across the state. The state share index is used to distribute the higher amounts of the opportunity grant and many of the categorical components of the formula to districts with lower capacities. The targeted assistance component of the formula further equalizes school district revenue by targeting additional funding to districts with lower capacities. Most of the funding in this component is distributed through a base tier that equalizes a varying amount of millage[1] for districts outside of the top 20% on a measure of per-pupil wealth. In addition, this component contains a supplemental tier for districts with high percentages of agricultural real property. Combined, both tiers of targeted assistance for school districts totaled approximately $963.9 million in FY 2019 prior to the application of the foundation funding guarantee and cap provisions.[2] Final allocations after application of the cap and guarantee totaled $919.3 million.

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[1] Millage rates represent the rate of property taxes levied in a district. These rates, primarily determined by a district's voters, are the other variable besides property values that determine a district's local tax revenue. One mill equals 0.001.

[2] H.B. 166, the operating budget for the 133rd General Assembly, suspended the main foundation aid and pupil transportation formulas for FY 2020 and FY 2021 and, instead, provided each district with the same allocations received in FY 2019.

Base tier

The base tier of targeted assistance depends on a combination of a district's property value per pupil and income per pupil. Property value is computed as the average of the preceding three years. While this is similar to the measure used for the state share index, there is no adjustment for districts affected by power plant devaluation or tax-exempt property; the measure is recomputed each year;[3] and current year formula average daily membership (ADM) is used as the student count. Income is computed as the three-year average of federal adjusted gross income (FAGI). The formula defines a district's wealth per pupil as the average of its property value per pupil

> **District wealth per pupil** = 0.5 x (average last three years' taxable property value / formula ADM) + 0.5 (average of last three years' FAGI / formula ADM)

and its income per pupil. Similarly, the formula also computes the statewide wealth per pupil using statewide sums of property value, FAGI, and formula ADM.

Base targeted assistance is provided to the 489 districts with the lowest wealth per pupil. Millage is equalized to the wealth per pupil of a threshold district, which is the district with the 490th lowest wealth per pupil. In FY 2019, the threshold district's wealth per pupil was $219,358. The millage equalized by the base tier varies depending on the wealth per pupil of the district. The formula calculates a wealth index for each district that is equal to the statewide wealth per pupil divided by the district's wealth per pupil. So, if a district's wealth per pupil is average (equal to the state's) then the wealth index is 1.0. If a district's wealth per pupil is greater than average, its wealth index will be less than 1.0 and if it is lower than average, its index will be greater than 1.0. In FY 2019, statewide wealth per pupil was $172,507 and the wealth index values of the 489 districts eligible for base targeted assistance varied from about 0.79 to about 2.82. The wealth index of each district is multiplied by a target millage rate of six mills in each fiscal year. As a result, the millage equalized by the base tier in FY 2019 ranged from about 4.7 mills (6 mills x 0.79) to about 16.9 mills (6 mills x 2.82).

Millage Equalized by Base Targeted Assistance
District wealth index = state wealth per pupil / district wealth per pupil
District additional millage = 0.006 x district wealth index

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[3] Tax years (TYs) correspond to fiscal years two years later. So, for FY 2019, property value per pupil is the average of TYs 2015, 2016, and 2017.

Although targeted assistance is computed on a per-pupil basis, it excludes most scholarship students, e-school students, and includes only a portion of "brick and mortar" community and STEM school students. Therefore, an adjustment is made to the formula ADM of each district so as to not credit the district with targeted assistance for students educated through these programs. The resulting ADM figure is referred to as "net formula ADM." Base targeted assistance per pupil ranged from about $1 to about $2,676 in FY 2019. Statewide, base targeted assistance for school districts totaled approximately $802.0 million prior to the formula's cap provision, and $757.9 million after application of the cap.

Net formula ADM = formula ADM - EdChoice Scholarship ADM - Autism Scholarship ADM - Jon Peterson Special Needs Scholarship ADM - e-school ADM - 75% of "brick and mortar" community and STEM school ADM

Base Targeted Assistance Per Pupil

Base targeted assistance per pupil =
(Wealth per pupil of 490th lowest wealth district - district wealth per pupil) x
target millage x district wealth index

Chart 1 below illustrates the equalized distribution of these funds by wealth quintile on an average per-pupil basis calculated using the district's formula ADM. As the chart shows, districts in quintile 1 receive an average of $1,306 per pupil, more than twice the per-pupil amount for quintile 2. The chart also illustrates the scaling effect of applying the wealth index to the target millage rate. On average, the least wealthy districts (those in quintile 1) have a wealth index of 1.93, while districts in quintiles 2 and 3 have an average wealth index of 1.29 and 1.06, respectively. The average wealth index for the two highest wealth quintiles is 0.86 and 0.63, respectively. Thus, the base tier equalizes an average of 11.58 mills (6 mills x 1.93) for the least wealthy districts, close to double the average 6.36 mills equalized in districts comprising the middle quintile (6 mills x 1.06) and over three times the average 3.78 mills equalized in districts in the highest wealth quintile (6 mills x 0.63).

Chart 1: Average Base Targeted Assistance Per Pupil by Wealth Quintile, FY 2019
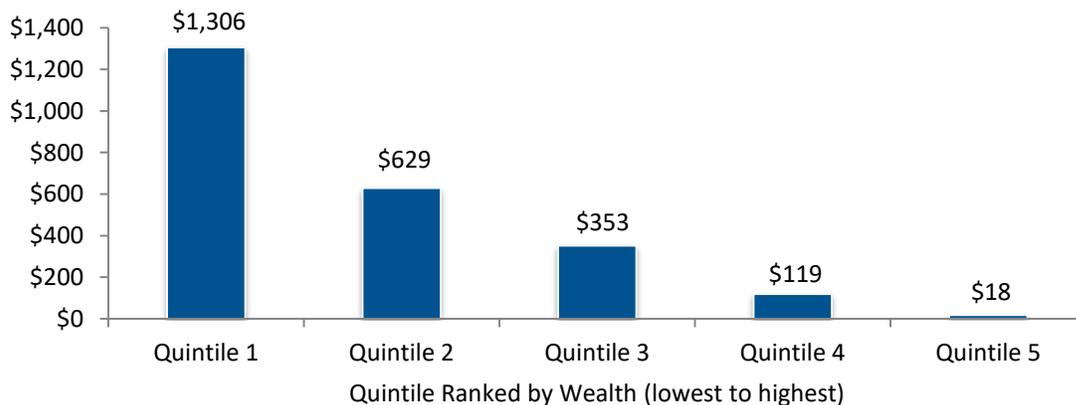
Supplemental tier

The formula also provides supplemental targeted assistance based on a district's percentage of agricultural property value. This tier is calculated by subtracting ten percentage points from each district's agricultural percentage and multiplying the difference by 40% of the formula amount ($2,408 in FY 2019) and then by the district's net formula ADM. Thus, only districts with more than 10% agricultural real property qualify for these funds.[4] In FY 2019, 335 (54.9%) districts met this threshold. Supplemental targeted assistance for these school districts totaled approximately $161.9 million prior to the formula's cap provision, and $161.4 million after application of the cap.
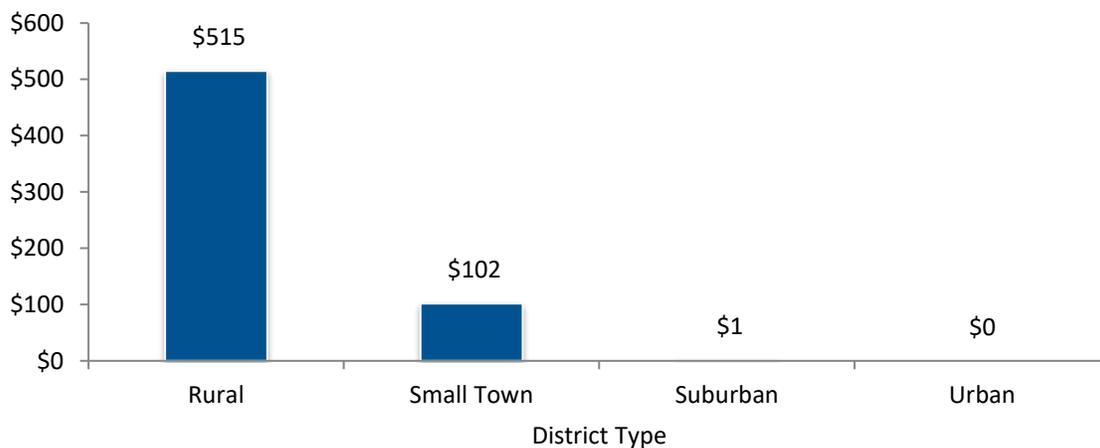
Supplemental Targeted Assistance
District agricultural percentage = three-year average value of district agricultural real property / three-year average value of all real property in district
Supplemental targeted assistance = (district agricultural percentage - 0.1) x (0.4 x formula amount) x net formula ADM

The chart below shows average supplemental targeted assistance per formula ADM in FY 2019 by type of district. The chart illustrates that the formula directs this funding to rural districts. The average per-pupil amount for rural districts was $515 in FY 2019, more than five times the average of $102 per pupil received by districts in small town areas. Suburban and urban districts received little or nothing from this component.

Chart 2: Average Supplemental Targeted Assistance Per Pupil by District Type, FY 2019

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[4] District calculations that result in a negative number receive $0 in supplemental targeted assistance.

Capacity aid

Beginning in FY 2016, H.B. 64 added a new funding component that targets funding to smaller districts with relatively low total property valuation. This component, capacity aid, is based on the amount a district can raise with one mill (the district's capacity

District capacity amount = Three-year average property value x 0.001

amount) and is provided to districts that raise less than the median amount. In FY 2019, the median capacity amount was $238,311. The aid is calculated on a sliding scale (determined by a district's capacity ratio) so that districts further from the median receive a higher amount. The capacity ratio calculation is illustrated below.

Capacity ratio = the lesser of: [(median capacity amount / district capacity amount) -1] or 2.5

The subtraction of one ensures only districts below the median capacity amount qualify for funding. A negative result is treated as a zero ratio, and thus no capacity aid is provided to such a district. Additionally, no district's capacity ratio may exceed 2.5.

Next, the formula calculates the capacity aid per-pupil amount, which is the median capacity amount divided by the average formula ADM of all of the districts with capacity amounts below the median. In FY 2019, the average formula ADM of all districts below the median capacity amount was 1,024, leading to a capacity aid per-pupil amount of about $233. Finally, capacity aid is calculated by multiplying the capacity aid per-pupil amount by the district's formula ADM by the capacity aid multiplier (value of 4.0 in FY 2019) and then by the capacity ratio. For FY 2019, capacity aid for school districts totaled approximately $201.8 million prior to the formula's cap provision, and $198.1 million after the cap.

Capacity Aid

Capacity aid = capacity aid per pupil x formula ADM x capacity aid multiplier x capacity ratio

The chart below shows average capacity aid per formula ADM funding in FY 2019 by type of district. Rural districts receive the highest amount of average per-pupil funding from this component at $573. These districts have, on average, the lowest aggregate valuations among the district types and make up about 62% of the districts below the median capacity amount. On the other hand, urban districts receive very little from capacity aid, though they tend to have the lowest average valuations per pupil among district types. By their nature, urban districts, particularly the eight major urban districts, have relatively large amounts of aggregate property value. Thus, urban districts tend to raise more than the median capacity amount from one mill. Of the districts that qualify for capacity aid, 11 (3.6%) are smaller urban districts. No major urban districts qualify.

Chart 3: Average Capacity Aid Per Pupil by District Type, FY 2019