

# Equalization Aid Formula

## Overview - A Three-Tiered Formula

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Since the mid-1970s, Wisconsin has distributed state general aid to public school districts through a tax-based, three-tiered equalization formula (prior to the 1995-97 Wisconsin State Budget, a two-tiered formula was used). Note that "tiers" refers to the number of internal formula computations; in the current formula, there are three separate algebraic computations, the results of which are summed to get the district's total Equalization Aid. Click the appropriate links below for more information.

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## How it Works and Sample District

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### How it Works

The equalization formula is a cost-sharing formula--the state and the local district each contribute a portion to fund the total cost. The district's percentage is determined by the percentage the district value per member is of the guaranteed valuation per member. The district then assumes that percentage of cost at that tier, with Equalization Aid making up the difference. The same arithmetic methodology is used at all tiers, but each tier uses different numbers in its calculation. This methodology, known as the "percentage method," is not the actual calculation specified in state statutes but it's a very close approximation and an effective pedagogical tool for those seeking to understand how the formula works.

### Sample District

Our sample district has 500 students, spends at \$11,000 per member and has a value-per-member of \$200,000. The Tier 1 calculation will use 500 members--\$1,000 of the per member cost--and value per member of \$200,000. The Tier 2 calculation will use 500 members, the next \$7,000 of the per member cost and value per member of \$200,000. The Tier 3 calculation will use 500 members, per member cost above \$8,000 (in this case, \$3,000) and value per member of \$200,000.

## Primary Aid Tier

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The first-tier computation provides equalization aid for shared cost up to the state-determined **primary** cost ceiling level of \$1,000 per member (referred to as primary shared cost) for those districts having value per member up to the state **primary per-member guaranteed valuation**. The portion of the \$1,000 per-member required to be paid for by the district's tax base is the same percentage the district's per-member value is of the state per-member primary guarantee.

### Tier 1 Example

If a district's per-member value is \$200,000 and the state per-member primary guarantee is \$2,000,000, then the district value (\$200,000) is 10 percent of the state primary guarantee (\$2,000,000). For this district, its tax base would be required to fund 10 percent of \$1,000 per-member cost, or \$100. The state aid for this district at the **primary** level would be the difference between \$1,000 and \$100, or \$900 per member.

## Primary Aid Calculation - Sample District

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District factors used in the Primary Aid Calculation:

- Membership = 500
- Value per Member = \$200,000
- District Primary Per-Member Shared Cost = \$1,000

State factors used in the Primary Aid Calculation:

- Primary Guaranteed Valuation = \$2,000,000
- Primary Cost Ceiling = \$1,000

<b>Local Support</b>	\$200,000	=	10.00%	x	\$1,000	=	\$100
<b>State Equal Aid</b>	\$1,800,000	=	90.00%	x	\$1,000	=	\$900
<b>Total</b>	\$2,000,000	=	100.00%	x	\$1,000	=	\$1,000

## Secondary Aid Tier

The second-tier computation provides equalization aid for shared cost between \$1,000 and the state-determined **secondary** cost ceiling (referred to as secondary shared cost) for those districts having value per member up to the state **secondary per-member guaranteed valuation**. By statute, the secondary cost ceiling level is computed as 90 percent of the statewide average shared cost per member, so each year the secondary cost ceiling changes as the statewide cost changes. Secondary cost can be defined as the cost above \$1,000 but below the secondary per-member cost ceiling. The portion of the secondary per-member cost required to be paid for by the district's tax base is the percentage the district's per-member value is of the state per-member secondary guarantee.

### Tier 2 Example

If a district's per-member value is \$200,000 and the state per-member secondary guarantee is \$800,000, then the district value (\$200,000) is 25 percent of the state secondary guarantee (\$800,000). For this district, its tax base would be required to fund 25 percent of the secondary cost. So, if the secondary cost ceiling was \$8,000, the amount of secondary cost in this tier is \$7,000 (\$8,000 minus the \$1,000 already used in the primary tier). This district's tax base would be required to fund 25 percent of \$7,000 of per-member cost, or \$1,750. The state aid for this district at the **secondary** level would be the difference between \$7,000 and \$1,750, or \$5,250 per member.

## Secondary Aid Calculation - Sample District

### District factors used in the Secondary Aid Calculation:

- Membership = 500
- Value per Member = \$200,000
- District Secondary Per-Member Shared Cost = \$7,000 (\$8,000 - \$1,000)

### State factors used in the Secondary Aid Calculation:

- Secondary Guaranteed Valuation = \$800,000
- Secondary Cost Ceiling = \$8,000

<b>Local Support</b>	\$200,000	=	25.00%	x	\$7,000	=	\$1,750
<b>State Equal Aid</b>	\$600,000	=	75.00%	x	\$7,000	=	\$5,250
<b>Total</b>	\$800,000	=	100.00%	x	\$7,000	=	\$7,000

## Tertiary Aid Tier

The third-tier computation provides equalization aid for shared cost ABOVE the state-determined **secondary** cost ceiling level (referred to as tertiary shared cost) for those districts having value per member up to the state **tertiary per-member guaranteed valuation**. By statute, the tertiary guaranteed valuation is 100 percent of the statewide average per-member valuation. The portion of the tertiary per-member cost required to be paid for by the district's tax base is the percentage the district's per-member value is of the state per-member tertiary guarantee.

### Tier 3 Example

If a district's per-member value is \$200,000 and the state per-member tertiary guarantee is \$400,000, then the district value (\$200,000) is 50 percent of the state secondary guarantee (\$400,000). For this district, its tax base would be required to fund 50 percent of the tertiary cost. With the secondary cost ceiling at \$8,000, the amount of tertiary cost in this tier would be cost in excess of \$8,000, or \$3,000 in this case. This district's tax base would be required to

fund 50 percent of \$3,000 of per-member cost at this tier, or \$1,500. The state aid for this district at the **tertiary** level would be the difference between \$3,000 and \$1,500, or \$1,500 per member.

## Tertiary Aid Calculation - Sample District

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District factors used in the Tertiary Aid Calculation:

- Membership = 500
- Value per Member = \$200,000
- District Tertiary Per-Member Shared Cost = \$3,000 (district cost ABOVE the secondary cost ceiling)

State factors used in the Tertiary Aid Calculation:

- Tertiary Guaranteed Valuation = \$400,000
- Secondary Cost Ceiling = \$8,000 (determines cost ABOVE the secondary ceiling)

<b>Local Support</b>	\$200,000	=	50.00%	x	\$3,000	=	\$1,500
<b>State Equal Aid</b>	\$200,000	=	50.00%	x	\$3,000	=	\$1,500
<b>Total</b>	\$400,000	=	100.00%	x	\$3,000	=	\$3,000

## Total Equalization Aid

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A district's total state Equalization Aid is the sum of the state aid from each tier:

- Primary aid per member = \$900
- Secondary aid per member = \$5,250

- Tertiary aid per member = \$1,500
- Total aid per member = \$7,650

This district's cost in the formula is \$5,500,000 ( $\$11,000 \times 500$ ). Equalization Aid funds \$3,825,000 ( $\$7,650 \times 500$ ). The local property tax funds \$1,675,000 ( $\$11,000 - \$7,650 \times 500$ ).

### **Equalization Aid Important Features**

There are two important additional features to understand about Equalization Aid:

#### **Negative Aid**

If a district's value per member exceeds the state guarantee at the secondary or tertiary tiers, negative aid is generated. Negative aid at any tier can reduce, or in some cases, eliminate a district's positive aid from another tier. A hold-harmless provision in state statutes entitles a district to receive at least the positive aid generated at its primary tier, regardless if the sum of all three tiers is a negative number. Districts not generating positive aid at the primary tier do not get any Equalization Aid from the state.

#### **Differing Configuration Accommodations**

The equalization aid formula accommodates the differing configurations found in Wisconsin districts. For elementary school districts (grades K-8), the guaranteed valuation is adjusted to one-and-a-half times the K-12 guaranteed valuation, and for high school districts (grades 9-12), the guaranteed valuation is adjusted to three times the K-12 guaranteed valuation.

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