



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1012

General Aids for Technical College Districts (WTCS)

CURRENT LAW

Of the \$879.9 million in total revenues received by Wisconsin Technical College System (WTCS) districts in 1999-00, almost half (48.7%) was from property taxes. The remaining \$450.7 million consisted of state aid (14.8%), tuition and fees (12.4%), federal aid (7.6%) and self-financing operations and miscellaneous revenues (16.4%).

State aid is provided to WTCS districts in the form of unrestricted general aid, through categorical aids which support specific programs or services and for student grants. In 2000-01, \$118,415,000 GPR is provided for state general aids, \$16.8 million GPR and \$0.5 million PR is appropriated for various categorical aid programs, \$5 million GPR is administered through the Department of Administration for expanding high-demand programs and \$6.6 million GPR is appropriated for technical and occupational student grants. General aids are distributed through a formula which takes into account each of the 16 district's costs, FTE students and equalized property valuation.

GOVERNOR

The appropriation for general aids to technical college districts would remain at the 2000-01 base level of \$118,415,000 annually.

DISCUSSION POINTS

1. Of the \$270.8 million in total state aid provided to WTCS districts in the 1999-01 biennium, \$234.4 million (or 86.6%) is distributed as general, unrestricted aids through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts. Districts with less property valuation behind each student receive a higher percentage of their aidable costs through the formula because they are less able to generate as much property tax

revenue at a given mill rate than districts with high property valuations. In addition to partially equalizing the revenue available for district programs, general aid is also provided as a form of property tax relief and to address district needs not met by categorical aids, particularly operational costs.

2. The following table shows the amount appropriated for general aids to WTCS districts and the ratio of general aids to aidable costs since 1992-93. Aidable costs represent expenditures, including debt service, associated with providing postsecondary, vocational-adult and college parallel programs which are funded with property taxes and state general aids.

<u>Year</u>	<u>General Aid</u>	<u>% Change</u>	<u>Aidable Cost</u>	<u>% Change</u>	<u>Ratio of Aid to Cost</u>	<u>Change in CPI**</u>
1992-93	99,034,500	--	357,849,100	--	27.7%	3.0%
1993-94	104,454,200	5.5%	376,344,800	5.2%	27.8	3.0
1994-95	110,199,200	5.5	403,685,400	7.3	27.3	2.6
1995-96	110,199,200	0.0	432,228,200	7.1	25.5	2.8
1996-97	110,199,200	0.0	453,406,400	4.9	24.3	2.9
1997-98	111,852,200	1.5	475,291,400	4.8	23.5	2.3
1998-99	113,530,000	1.5	505,513,498	6.4	22.5	1.6
1999-00	115,945,000	2.1	526,617,352	6.3	22.0	2.2
2000-01*	118,415,000	2.1	566,136,623	7.5	20.9	3.4

*Aidable cost is based on April 2000, district estimates.

**Consumer Price Index changes for calendar years 1992 through 2000.

3. As the table indicates, the state's share of aidable cost has declined from 27.7% to an estimated 20.9% in 2000-01. If funding for general aids is maintained at the current level and aidable costs were to increase by 6.5% per year, the state's share of aidable costs would decline to 18.4% by the end of the 2001-03 biennium. The increase in aidable costs has exceeded the rate of inflation, as measured by the consumer price index, while general aid increases have lagged the rate of inflation during the last six years.

4. Since 1996-97, the state's property tax relief efforts have focused on elementary and secondary school aids. Most of the state's other major local aid programs have been frozen or have experienced modest increase at best while the Governor and Legislature have appropriated funds to meet the state's commitment to fund two-thirds of K-12 partial school revenues.

5. The WTCS Board cites several factors as contributing to district cost increases including employee contract settlements ranging from 3.8% to 4.5% and the need to provide compensation for instructors at levels that are competitive with what they could receive in private industry. The Board indicates that cost increases are also attributable to: greater numbers of high school students being served through school-to-work programs; the shortage of skilled workers in information technology and skilled trades which increases demand on existing programs and, in many cases, requiring development of new programs; and the changing nature of the workforce and the workplace requires districts to make investments in emerging technology and offer more flexible hours of instruction and student support.

6. In its biennial budget request, the State Board requested increases of \$4,885,000 (4.1%) in 2001-01 and \$9,909,100 (4.1%) in 2002-03. The request was based on a survey of the 16 WTCS districts in which the districts were asked to project their budget needs to: (a) maintain the same level of programming as in 1999-00; and (b) to "meet actual program needs and training demands." The responses indicated that annual increases of 4.1% would be required to maintain the same level of programming and 6% would meet other needs. In addition, the State Board argues that the requested increase would slow the growth in district property tax levies and help ensure that an adequate revenue base is available to fund technical education programs across the state, especially in regions with lower-than-average property valuations per FTE student.

7. Some may view the ability of most districts to increase the property tax levy as a reason for reducing or limiting the growth of state aid increases. Since WTCS has access to this local revenue source, the state can level-fund general aids without denying WTCS additional revenues. In this case, local district boards would have to determine the level of resources for their local operations within the state mill limit on WTCS operating levies.

8. However, according to the WTCS Board, state aids play an important role in supporting the technical college system. General aids are used to equalize the fiscal capacities of the 16 districts to ensure that an adequate revenue base is available to fund technical education programs across the state. In addition, the growing dependence on the property tax to fund the system can result in fiscal inequities between those districts with higher local tax bases and those with lower-than average tax bases. Furthermore, concerns can be raised regarding the increasing burden being placed on local taxpayers to fund a statewide mission of technical and occupational education and workforce development.

9. Under current law, WTCS district levies for all purposes except debt service cannot exceed 1.5 mills. For districts at the mill limit, increases in revenue are essentially limited to increases in their equalized property values, and thus it is argued that particularly for these districts, there is a greater need for increases in state aid. In 2000-01, however, only three districts (Milwaukee, Southwest and Western) are at the mill limit. The mill limit was a greater concern in the late 1980s and early 1990s, when more than half of the districts were at the mill limit. Since 1990-91, equalized property valuations have increased by an average 7.2% annually statewide. This growth has allowed most districts to increase their property tax revenues while remaining at or below the limit. In 2000-01, the statewide average increase in property valuations was 7.3% with increases in individual districts ranging from a low of 2.0% (Southwest) to a high of 13.9% (Indianhead).

10. Due to changes in district aidable costs and equalized valuations per FTE, a district's general aid payment typically varies from year to year even when the total amount appropriated for general aids remains constant. Of the three districts which show a decline in general aid in 2000-01, only one (Milwaukee) is currently at the 1.5 mill limit.

11. The anticipated impact on each technical college district of no increase in general aid would differ. In each case, the impact depends on the ability and willingness of the district board to

raise property taxes, reallocate resources among programs and services, and forego planned expansions of programs and services. The following fiscal factors determine how a district would respond to no increase in general aid: how close the district is to the 1.5 mill rate limit; the anticipated relative increase in equalized property valuations in the district compared to operational cost increases; the impact of full implementation of farmland use value assessment on a district's equalized property valuation; and concerns about the impact of mill rate increases on district bond ratings.

12. According to WTCS, the districts that would experience the greatest impacts of no increase in general aid are those that are already at or close to the 1.5 mill rate limit: Milwaukee, Southwest Wisconsin, and Western Wisconsin districts. These three districts comprised 28.3% of the statewide technical college FTE enrollment in 1999-00. The limited fiscal capacity of these three districts is further compounded by relatively low rates of increase in property valuation and, in Southwest and Western, reductions in the property tax base due to the full implementation of farmland use value assessment. According to WTCS, the districts have indicated that they would need to implement significant cuts in staffing, programs and services in order to accommodate level-funded general aids.

13. Currently, the WTCS Board has the authority to provide grants to districts with limited fiscal capacity in order to fund educational programs, courses or services that would not otherwise be established or maintained because of limitations in district fiscal capacity. By statute, the Board may not award more than \$1,500,000 annually for fiscal capacity grants; funding for the grants would need to come from the incentive grant appropriation. However, the WTCS Board has not allocated funds for limited fiscal capacity grants since 1991-92. The Board discontinued this category of grants once districts that had experienced property value declines during the 1980s had recovered most of the property value loss.

14. Under the Governor's budget, the incentive grant appropriation would remain at \$7,888,100 annually during the 2001-03 biennium. If the WTCS Board were to allocate funds for limited fiscal capacity grants, funds would need to be reallocated away from the existing incentive grant programs funded through the incentive grant appropriation. In addition to limited fiscal capacity grants, the WTCS Board may award incentive grant funding to WTCS districts or consortia of districts for basic skills education, emerging occupations programs, technology transfer and grants for programs at juvenile correctional facilities. In 2000-01, the WTCS Board awarded \$8.7 million in grants funding to all 16 districts for basic skills education (\$4.0 million), new emerging occupations program development (\$4.2 million) and technology transfer (\$0.5 million).

15. The Committee could increase incentive grant funding by \$1,500,000 specifically for limited fiscal capacity grants targeted to districts at the 1.5 operational mill rate. Based on technical college district budget requests, fiscal capacity grant funding of \$1,500,000 annually would cover approximately 61% of the budget shortfall among those districts at the 1.5 mill rate maximum in 2001-02. Districts at the 1.5 mill rate limit project the following expected budget shortfalls in 2001-02: Milwaukee, \$1,010,000; Southwest, \$350,000; and Western, \$1,081,650. Funding shortfalls for 2002-03 would be slightly higher but are less certain due to potential changes

in property valuations and operational cost changes. Some would argue that limited fiscal capacity grants should only be provided to districts that are experiencing an actual decline in equalized property values; all three districts at the maximum mill rate level experienced property valuation growth during the 1999-01 biennium.

16. Over the last ten years, it has been the growth in property values (and in turn property taxes) that has provided the largest source of additional funding to districts rather than increases in general aids or categorical aids. The WTCS statewide equalized value has increased greater than 7% annually during most of the past decade and increases in categorical aids have somewhat lessened the impact of limited growth in general aids. However, most of the funding provided by categorical aids is targeted to support specific initiatives. If property values do not continue to increase faster than district operational costs and state aid remains frozen at 1999-01 levels, the limited ability to respond to programming needs of the residents and employers may expand beyond the three districts currently at the mill rate maximum.

17. Since 1996-97, the state's property tax relief efforts have focused on elementary and secondary school aids. Most of the state's other major local aid programs have been frozen or have experienced modest increases while the Governor and Legislature have appropriated funds to meet the state's commitment to fund two-thirds of partial K-12 school revenues.

ALTERNATIVES

1. Approve the Governor's recommendation to maintain current law. Annual funding for general aids to WTCS districts would remain at \$118,415,000.

2. Increase general aids to WTCS districts by \$4,855,000 (4.1%) in 2001-02 and \$9,909,100 (4.1%) in 2002-03.

Alternative 2	GPR
2001-03 FUNDING (Change to Bill)	\$14,764,100

3. Increase general aids to WTCS districts by one of the following percentages:

% Increase	<u>GPR Funding Amount Calculated as a Change to Bill</u>		
	<u>2001-02</u>	<u>2002-03</u>	<u>Total</u>
1.0%	\$1,184,200	\$2,380,200	\$3,564,400
2.0	2,368,300	4,784,000	7,152,300
3.0	3,552,500	7,211,500	10,764,000
4.0	4,736,600	9,662,700	14,399,300
5.0	5,920,800	12,137,600	18,058,400
6.0	7,104,900	14,636,100	21,741,000

4. Provide \$1,500,000 in incentive grant funding annually and specify that the WTCS Board allocate those amounts as grants to districts with limited fiscal capacity.

Alternative 4	GPR
2001-03 FUNDING (Change to Bill)	\$3,000,000

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