



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1220

### **Debt Levy Limit for Calculation of Partial School Revenues (DPI)**

[LFB Summary of the Governor's Budget Reform Bill: Page 71, #1]

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#### **CURRENT LAW**

The state has a goal of funding two-thirds of K-12 partial school revenues. For the purposes of the two-thirds funding goal, state funding is defined as the sum of state general and categorical school aids, the school levy tax credit and the general program operations appropriation for the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired. With certain exceptions, partial school revenues is defined as the sum of state school aids and property taxes levied for school districts. The two-thirds funding commitment is calculated on a statewide basis; the level of state aid received by an individual district may be higher or lower than two-thirds depending on the district's per member shared cost and equalized value.

Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid and property taxes is restricted. A school district can, however, exceed its revenue limit by receiving voter approval at a referendum. These referenda can approve debt, or recurring or nonrecurring operating revenues. Property tax levies for the referenda-approved debt service payments of school districts are included in the partial school revenues that the state will support at an estimated two-thirds funding level. Therefore, the state's funding obligation is influenced by the degree to which school districts are successful in passing borrowing referenda.

#### **GOVERNOR**

Limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$490 million. Set the general school aids funding level at \$4,200,945,900

in 2002-03, which is a reduction of \$20,000,000 compared to the Act 16 general school aids appropriation for 2002-03.

## DISCUSSION POINTS

1. Local property tax revenues levied for the support of referenda-approved debt are included in the definition of partial school revenues for which the state provides an estimated two-thirds level of support. State aid related to the debt levy is not funded from a separate appropriation, but is one of the factors that determines how much funding is appropriated in the overall general school aids appropriation, which is funded at \$4.05 billion in 2001-02. The following table outlines the portion of state support for K-12 education due to referenda-approved debt.

### Portion of State Support for K-12 Education Due to Referenda-Approved Debt (\$ in Millions)

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Estimated total Levy for Referenda-Approved Debt	\$245.5	\$323.8	\$346.0	\$385.0	\$407.0	\$448.9	\$476.7
State Support of Referenda-Approved Debt Under Two-Thirds Funding	N.A.	\$215.9	\$230.7	\$256.7	\$271.3	\$299.3	\$317.8
Total State Support for K-12 Education	\$3,024.5	\$4,035.4	\$4,274.0	\$4,458.7	\$4,695.6	\$4,932.6	\$5,082.6
Aid for Referenda-Approved Debt as % of State Support	N.A.	5.35%	5.40%	5.76%	5.78%	6.07%	6.25%

As shown in the table, the amount of referenda-approved debt has been steadily increasing over the past three biennia. State aid for referenda-approved debt as a percent of total state support of K-12 education has increased by nearly one percentage point since 1996-97, the first year the state provided two-thirds support of K-12 education. It should be noted that the percentage is influenced not only by the level of referenda-approved debt, but also by the level of state support for K-12 education. Minor changes to the two-thirds commitment since the 1995-97 budget act, such as moving from "66.7%" to "two-thirds" funding of partial school revenues or inclusion of the general program operations appropriation for the state residential schools in the definition of state support, tend to slightly inflate the percentage that state support of referenda-approved debt is of overall state support.

2. When local voters approve a school district referendum to issue long-term debt for school construction projects, this affects school finance on both the statewide level and the school district level. For example, assuming a 20-year even payment schedule and a 5% interest rate, if a school district passed a \$15 million referendum in the fall of 2001 and issued the bonds in the spring of 2002, the district would incur approximately \$1.2 million in debt service costs annually beginning in 2002-03, depending on the structure of the bond issue.

On a statewide level, under current law, the resulting referenda debt levy would increase partial school revenues by \$1.2 million in 2002-03, which would increase the cost of two-thirds funding of partial school revenues by \$800,000 in 2002-03. This increase in state general aid would then be distributed among the 426 school districts through the equalization aid formula. Most school districts would gain state aid as a result of this increase in funding, while some would be unaffected. No school district would lose aid as a result of this increase in general school aids funding.

On a school district level, the district would be required to levy the for the full \$1.2 million in 2002-03 because equalization aid is based on prior year costs. In 2003-04, the amount of equalization aid that the school district would receive is dependent on how the school district fares under the equalization aid formula, which is based on a district's shared cost and property valuation per member. The district does not automatically see an aid increase equal to the amount of additional debt service incurred as a result of the referendum, as its aid could remain unchanged or even be reduced when its shared costs increase.

3. Under the Governor's proposal, the state would establish a cap on the total amount of referenda-approved debt that it would count under the two-thirds funding commitment. If, in the aggregate, school districts exceed this limit, then school districts generally would see a proportional reduction in state support for all school district costs compared to current law. Referenda-approved debt would be treated the same under the cap regardless of whether a particular referendum passed before or after the effective date of the bill. Debt service costs for all districts would continue to be aided as shared costs under the equalization aid formula as under current law.

4. Under the Governor's recommendation, if the debt levy increased to \$520 million as estimated under Act 16, a debt levy of \$490 million would be used rather than that actual debt levy amount. In this case, the state's definition of partial school revenues would be \$30 million less than actual partial school revenues, and therefore the amount of funding necessary to fund two-thirds would be \$20 million lower. However, under current law revenue limits, any aid loss for school districts under this proposal could be made up through the property tax levy. As a result, the statewide school property tax levy could be \$20 million higher than under current law.

5. Another provision of the bill would specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210, unless a school board adopts a resolution to that effect by a two-thirds vote of the members-elect rather, in which case the adjustment would be an estimated \$230.67 as under current law. To the extent that districts with an aid loss under the debt levy provision would be subject to the \$210 per pupil adjustment, rather than an estimated \$230.67 under current law, this would mitigate increases in the local levy.

6. Proponents of the debt levy limit proposal argue that the increased level of state support for school districts under the state's two-thirds funding commitment has provided school districts with added incentive to seek voter approval for bonding referenda. As a result, the amount of resources being devoted to construction and other capital projects has been growing at a disproportionate rate since the start of two-thirds funding. Placing a cap on the debt levy recognized for two-thirds funding purposes would recognize the recent increase in funding for capital projects,

but ensure that additional state financial support for such projects in the aggregate in the future would be more limited.

7. Rather than capping the debt levy limit at \$490 million, the Committee could set the limit at different levels. If the amount of funding provided for the debt levy prior to the start of state two-thirds funding is deemed the appropriate level for state support of such projects, the debt levy limit could be set at \$246 million, the level of the debt levy in 1995-96. Under this alternative, partial school revenues would be reduced by \$274 million in 2002-03, meaning that general school aids would be reduced by \$162.7 million compared to the bill to adjust two-thirds funding. Under revenue limits, the aid loss for school districts under this alternative could be made up through the property tax levy; as a result, the statewide school property tax levy could be \$162.7 million higher than under the bill.

8. One could also argue that school district bonding is more appropriately a local decision and should be funded at the local level, while state funding should be more focused on support for school district operations. In this case, the Committee could choose to completely exclude the referenda-approved debt levy from partial school revenues. Under this alternative, partial school revenues would be reduced by \$520 million in 2002-03, meaning that general school aids would be reduced \$326.7 million compared to the bill to adjust two-thirds funding. Under revenue limits, the aid loss for school districts under this alternative could be made up through the property tax levy; as a result, the statewide school property tax levy could be \$326.7 million higher than under the bill.

9. Others argue that because referenda-approved debt and debt service costs make up a relatively small percentage of total partial school revenues, the current methodology for supporting debt levies and debt service costs should be maintained. Because other school district educational revenues are not treated differently, it is inconsistent to treat debt levy revenues differently, especially after the bond issue has received approval by a majority of voters in a school district. They argue that voters may approve a bonding referendum for educational reasons, such as improved technology, safer and more accessible buildings or growing enrollments and therefore, to the extent possible, the state should provide the same level of support as with other educational revenues. In addition, altering the definition of partial school revenues could be perceived as receding from the state's commitment to fund two-thirds of partial school revenues.

## **ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$490 million. Reduce general school aids by \$20,000,000 in 2002-03 to adjust two-thirds funding to be consistent with this change.

2. Limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$246 million. Reduce general school aids by an additional \$162,666,700 in

2002-03 to adjust two-thirds funding to be consistent with this change.

<b>Alternative 2</b>	<b>GPR</b>
2001-03 FUNDING	- \$162,666,700

3. Exclude the referenda-approved school district debt levy from the definition of partial school revenues, beginning in 2002-03. Reduce general school aids by an additional \$326,666,700 in 2002-03 to adjust two-thirds funding to be consistent with this change.

<b>Alternative 3</b>	<b>GPR</b>
2001-03 FUNDING	- \$326,666,700

4. Maintain current law.

<b>Alternative 4</b>	<b>GPR</b>
2001-03 FUNDING	\$20,000,000

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