



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #1276

Mill Rate and Levy Limit Changes and Limit on Increase in Fees (WTCS)

[LFB Summary of the Governor's Budget Reform Bill: Page 107, #4 and #5]

CURRENT LAW

Technical college district property tax levies for all purposes except debt service are limited to 1.5 mills of the district's equalized property valuation.

Tuition for state residents enrolled in post-secondary and vocational adult programs must be set at the level necessary to generate revenue equal to at least 14% of the estimated statewide operational cost of those programs. The uniform tuition charge for college parallel courses must equal at least 31% of the estimated statewide operational cost of such programs.

GOVERNOR

Limit the amount of property taxes levied by each WTCS district for all purposes except debt service to the lesser of: (a) the amount levied in the previous year adjusted by the change in the consumer price index between the preceding March 31 and the second preceding March 31; or (b) the amount that would be generated by a levy rate of 1.5 mills. Authorize technical college district boards to exceed the levy limits for operating costs provided the district board adopts a resolution and submits the resolution for approval through a special referendum, but in no case could the levy exceed the amount that would be generated by a levy rate of 1.5 mills. In lieu of a special referendum, the district board could specify that the referendum be held at the next succeeding spring primary or election or September primary or general election if such election would be held not sooner than 42 days after the filing of the resolution of the district board. The district board secretary would be required to publish notices of the referendum and the referendum would be held in accordance with current law governing elections. Specify that the question submitted would be whether the levy limit may be exceeded by a specified amount.

Provide that if the referendum is approved, the levy limit otherwise applicable would be increased by the specified amount.

Specify that program fees charged to students in 2002-03 could not exceed the fees charged students in 2001-02 by more than 10%.

DISCUSSION POINTS

Technical College District Financing Overview

1. WTCS districts receive funding from five major sources: (1) property taxes; (2) direct state aid; (3) tuition and fees; (4) federal aid; and (5) self-financing operations and miscellaneous revenues. In 2000-01, the latest year for which data are available, total district revenue was \$973.4 million with \$464.2 million (47.7%) from property tax revenue, \$140.5 million (14.4%) from state aid, \$114.9 million (11.8%) from tuition and fees, \$77.1 million (7.9%) from federal aid, and \$176.7 million (18.2%) from self-financing and other sources.

2. The primary source of revenue for districts is the property tax levy. State law limits property taxes levied by each WTCS district for all purposes except debt service to \$1.50 per \$1,000 (or 1.5 mills) of the district's equalized property valuation. In the early 1990s most districts were levying at or near the mill limit. In the last several years, however, the relatively higher rate of increase in property values has allowed most districts to lower their mill rates. As a result, the systemwide average operational levy mill rate has fallen from 1.44 in 1991-92 to 1.33 in 2001-02 with only three districts (Milwaukee, Southwest and Western) currently at the 1.5 mill rate limit. The total operational levy in 2001-02 is \$406.5 million.

3. The table below shows the statewide equalized value and a breakdown of the total WTCS levy from 1991-92 through 2001-02. Since 1991-92, property valuations have increased at an average rate of 7.5% annually, the total levy has increased by an average of 7.4% per year and the operational levy has increased by an average 6.7% per year.

WTCS Statewide Tax Levy and Average Mill Rate (\$ in Millions)

	<u>Equalized Value</u>		<u>Operational Levy</u>			<u>Debt Levy</u>			<u>Total Levy</u>		
	<u>Amount</u>	<u>Percent Change</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>
1991-92	\$147,802.3	---	\$213.4	---	1.44	\$37.8	---	0.26	\$251.2	---	1.70
1992-93	156,158.1	5.7%	227.7	6.7%	1.46	40.9	8.2%	0.26	268.6	6.9%	1.72
1993-94	168,174.5	7.7	245.7	7.9	1.46	44.0	7.6	0.26	289.8	7.9	1.72
1994-95	181,676.8	8.0	259.4	5.6	1.43	51.2	16.4	0.28	310.6	7.2	1.71
1995-96	197,728.8	8.8	276.6	6.6	1.40	54.7	6.8	0.28	331.3	6.7	1.68
1996-97	212,840.9	7.6	292.7	5.8	1.38	57.7	5.5	0.27	350.4	5.8	1.65
1997-98	228,403.4	7.3	307.5	5.1	1.35	63.6	10.2	0.28	371.1	5.9	1.62
1998-99	243,852.0	6.8	327.1	6.4	1.34	69.1	8.6	0.28	396.2	6.8	1.62
1999-00	261,083.4	7.1	348.8	6.6	1.34	81.4	17.8	0.31	430.2	8.6	1.65
2000-01	280,085.8	7.3	375.5	7.7	1.34	90.7	11.4	0.32	466.2	8.4	1.66
2001-02	304,965.5	8.9	406.5	8.3	1.33	105.1	15.9	0.35	511.6	9.7	1.68

4. The total technical college property tax levy for 2001-02 is \$511.6 million with an average mill rate of 1.68. The districts' total levy includes both the operational levy and debt levy. There is no statutory limitation for taxes levied for debt service costs. However, a district's bonded indebtedness may not exceed 2% of its equalized property valuations. In addition, a referendum is required for building projects costing more than \$500,000 and if a district proposes to borrow in excess of \$500,000 for building, remodeling or improvement projects. A provision in 2001 Act 16 increased the current \$500,000 threshold for referenda approval of building projects and borrowing to \$1,000,000 beginning in 2002-03.

5. State aid is the second major source of funding for technical college districts. State aid is provided to WTCS districts either in the form of unrestricted general aid or through categorical aids, which support specific programs or services. Under 2001 Act 16, \$138,421,400 GPR was provided in 2001-02 and \$137,421,400 in 2002-03 for state aid programs for technical college districts. The Governor's budget adjustment proposal includes a 4.5% across the board cut to all technical college district state aid in 2002-03. As a result, general aid would be reduced by \$5,328,700 to \$113,086,300 in 2002-03, and funding for all other state aid programs would be reduced by \$856,100 in 2002-03.

6. General aid is the primary source of aid provided to districts by the state. General aid is provided to districts to partially equalize the revenue available for district programs as well as a form of property tax relief. Under 2001 Act 16, \$118,415,000 was provided for general aid for both years of the biennium, the same level of funding that was provided in 2000-01. State general aid increased from \$96,534,500 in 1991-92 to \$118,415,000 in 2001-02, an annualized increase of 2.1%. Over the same time period, district aidable costs increased from \$336,535,200 to \$610,257,243, an annualized increase of 6.1%. The increase in aidable costs has exceeded the rate of inflation (2.7% annually since 1991, as measured by the Consumer Price Index) during this period, while state aid has increased at a rate less than inflation; as a result, technical college districts have had to rely more on other sources of revenue, primarily the property tax levy.

7. Tuition provides the third major source of revenue for technical college districts. The State Board is required, by statute, to annually set uniform tuition charges. For college parallel (CP) courses, tuition must cover not less than 31% of the operational costs and for postsecondary/vocational adult (PS/VA) courses; tuition must cover not less than 14% of the operational costs. Tuition increased from \$36.85 per credit for PS/VA courses in 1990-91 to \$64 per credit in 2001-02, an annualized increase of 5.1%. For CP courses, tuition increased from \$52.80 per credit in 1990-91 to \$90 per credit in 2001-02, an annualized increase of 5.0%.

8. At its January, 2002, meeting, the Board set tuition for 2002-03, increasing tuition by 4.44% for CP courses (\$94 per credit) and 4.7% for PS/VA courses (\$67 per credit). Over the past ten years, the Board has consistently set tuition to recover approximately 14.5% of PS/VA and 31% of CP program costs. However, since the Governor's proposal would reduce state aid and limit the property tax levy in 2002-03, the Board left open the possibility of modifying the tuition schedule for 2002-03 to accommodate the potential revenue shortfall and anticipated increased

operational costs. However, the Governor's budget adjustment bill contains a provision that would limit the ability of the Board to increase tuition charged to students by more than 10%.

Technical College District Expenditures

9. The expenditures supported by all sources of WTCS revenues are commonly divided into operational and non-operational costs. Operational costs are those attributable to providing educational services regardless of funding source. These costs include instruction, instructional resources, student services, physical plant and general/administrative costs. Non-operational costs are all other costs to the districts such as debt service and capital projects.

In 2000-01, total operational costs were \$678.1 million and total non-operational costs were \$379.9 million. The difference between total system costs (\$1,058.0 million) and total revenues (\$973.4 million) in 2000-01 is the result of revenue carried over from prior years as fund balances, which are available for expenditure in the current year, as well as expenditures from bond proceeds. For all expenditure categories, salary and fringe benefits account for the largest share of district expenditures, with \$587.8 million (55.6%) of total expenditures allocated for these purposes.

10. Since 1990-91, WTCS districts' operational costs have increased from \$405.2 million to \$678.1 million in 2000-01, an annualized increase of 5.3%. Over the same time, the cost per FTE student has increased from \$6,636 to \$11,354, an annualized increase of 5.5%. Over the past ten years, operational cost increases have exceeded the rate of inflation. According to WTCS Board staff, the growth in operational costs has primarily been the result of increasing compensation and health care costs, increased enrollment, demand for new educational programs and investment in equipment and technology for educational programs that have been developed or expanded over the past ten years.

Impact of Proposal

11. The Governor's proposal would tie the rate of growth in the operational levy to the change in the consumer price index (CPI) as measured by the U.S. Bureau of Labor Statistics between March 31 of the preceding year and the second preceding March 31. The CPI measures changes in prices of all goods and services purchased for consumption by urban households and is widely used as a comparative benchmark of year-to-year increases in expenditures by businesses and government. However, since the CPI is based on consumer consumption, it could be argued that it is not a valid benchmark for a service agency such as the technical college system, whose service population is not fixed and whose costs of providing those services do not mirror those of a household consumer.

12. In 2001-02, the total operating levy for technical college districts is estimated at \$406.5 million. According to February, 2002, data from Standard and Poor's Data Resources, Inc., the rate of inflation from March 31, 2001 to March 31, 2002, is estimated at 1.1%. Therefore, under the Governor's proposal, the operating levy in 2002-03 would increase by approximately \$4.5 million to \$411.0 million. At the same time, the Governor's proposal would reduce total state aid to technical college districts by \$6.1 million. As a result of the Governor's proposal, technical college

districts would face a net revenue loss from the operating levy and state aid of \$1.6 million when comparing 2002-03 with 2001-02.

13. According to executive budget staff, the purpose of the Governor's proposal was to ensure that technical college districts did not pass on proposed reductions to total state aid through increased property tax levies or tuition increases beyond 10% in 2002-03. Under current law, it would be difficult to ensure that technical college districts did not offset reductions to total state aid through property tax or tuition increases. If technical college districts were to offset the proposed reductions to state aid with an increase in the operational levy, the levy would need to increase by approximately 1.5% in 2002-03. If the WTCS Board were to offset the proposed aid reductions with an increase in tuition, tuition revenue would need to increase by 5.1% in 2002-03. However, the Board's action regarding tuition for 2002-03 at its January, 2002, meeting suggests that such an additional increase is unlikely.

14. While limiting the likelihood that technical college districts would offset proposed reductions to state aid, the Governor's proposal would also limit the ability of technical college districts to meet their estimated operating costs for 2002-03. According to WTCS staff, total systemwide operating costs are estimated at \$772.1 million in 2002-03, an increase of approximately 6.5% over the preliminary operating cost estimate of \$725.0 million for 2001-02. The Governor's proposal would result in an estimated \$32.9 million operating cost shortfall for technical college districts in 2002-03 when compared with estimated operational costs.

15. Given total state aid provided to technical college districts under 2001 Act 16 for 2002-03 and the projected increase in district operating costs, the total statewide property tax levy for operations would need to increase to \$437.7 million in 2002-03, a 7.7% increase over the 2001-02 operational levy of \$406.5 million. If districts were to offset the proposed reduction to state aid in addition to anticipated cost increases, the systemwide property tax levy would need to increase from \$406.5 million to \$443.9 million in 2002-03, a 9.2% increase. However, districts at or near the 1.5 mill rate limit may not be able to offset the reductions as well as estimated operational cost increases through the property tax levy.

16. If districts need to raise their operating tax levy in order to fund anticipated operating cost increases, the Governor's proposal includes a provision for holding a referendum. According to executive budget staff, the ability to exceed the proposed levy limits through referenda would provide districts with the ability to meet additional enrollment demand or accommodate increased compensation costs. However, the referenda process would make it difficult for technical college administrators to plan and budget for the upcoming year because of uncertainty regarding referenda approval and scheduling the referenda in time for budgeting and planning the coming academic year.

17. In lieu of increasing operating revenue, the districts would need to reduce projected operating costs to accommodate the \$32.9 million shortfall in projected revenue for 2002-03, compared to current law for that year. In drafting its proposal, the administration did not envision specific cuts at the districts in response to the reduced revenue; instead, it was expected that technical college districts would evaluate expenditures, identify areas where greater efficiency could

be achieved and make changes to how services are delivered. While it is possible that districts could accommodate reduced revenues through reductions to noninstructional expenses, those items' share of total operational costs, as well as certain fixed costs associated with physical plant maintenance and utilities, make it unlikely that reductions could be limited to non-instructional expenses or accommodated completely through efficiency measures.

18. Traditionally, technical college districts experience above average enrollment growth during economic downturns. Enrollment during the recession of the early 1980's increased 23% over four years and during the recession of the early 1990's, enrollment grew 11% over four years. Since 1999-00 technical college enrollment has increased 5.2%, from 55,983 FTE in 1999-00 to a projected enrollment of 61,000 FTE in 2001-02. With the current economic downturn, enrollment is expected to continue increasing in 2002-03 as workers seek retraining or development of new skills.

19. According to executive budget staff, the Governor's levy limit was implemented to ensure that the districts did not compensate for state aid reductions through property tax increases. Prohibiting mill rate increases rather than the levy limit could help districts maintain educational services and increase enrollment, while limiting their ability to pass along reductions to state aid. An operating mill rate limit would prohibit all districts from increasing mill rates in 2002-03 above the 2001-02 rate, unless approved by a referendum, with the limitation that the current 1.5 mill restriction on mill rates could not be exceeded. Current operational and total tax levies and mill rates are shown in Table 2. With an operating mill rate limit, the district operating levy could increase at a rate equivalent to the rate of growth in equalized value, an estimated 7% statewide in 2002. The impact of a rate limit would vary among districts, because the rate of growth in equalized value and operating costs vary among the districts. Districts with value growth that exceeds their operational cost growth would benefit while districts with low value growth or higher operating expenses would still need to reduce operational expenditures in order to accommodate the rate limit.

TABLE 2

**Wisconsin Technical College System Board
Mill Rates and Total Tax Levy
Fiscal Year 2001-02
(\$ in Millions)**

<u>District</u>	<u>Operational</u>		<u>Total*</u>	
	<u>Levy</u>	<u>Mill Rate</u>	<u>Levy</u>	<u>Mill Rate</u>
Blackhawk	\$11.31	1.37	\$13.94	1.69
Chippewa Valley	19.18	1.43	24.40	1.82
Fox Valley	31.09	1.42	41.47	1.88
Gateway	35.92	1.43	40.57	1.62
Lakeshore	13.07	1.36	16.11	1.67
Madison Area	52.98	1.26	59.24	1.41
Mid-State	11.19	1.37	13.43	1.65
Milwaukee Area	74.94	1.50	101.25	2.03
Moraine Park	19.32	1.22	24.85	1.56
Nicolet	12.26	1.18	13.74	1.32
Northcentral	14.55	1.39	19.78	1.88
Northeast WI	29.82	1.23	39.46	1.62
Southwest WI	7.48	1.50	8.89	1.78
Waukesha Co	38.15	1.20	46.19	1.46
Western WI	14.94	1.50	23.96	2.41
WI Indianhead	<u>20.34</u>	1.09	<u>24.32</u>	1.30
Statewide	\$406.55	1.33	\$511.61	1.68

* Total levy including debt service

20. Given the proposed reductions to general aid and other categorical aids funded with general purpose revenue, it could be argued that districts should be able to utilize their current law authority to fund their operational expenses and maintain their educational services through increases, when necessary, in the property tax levy or higher mill rates. Under current law, the technical college district property tax rate for all purposes except debt service is limited to 1.5 mills of the district's equalized property valuation. The current law provision would continue to give districts some flexibility in accommodating increased costs and anticipated enrollment growth as well as the option to offset the proposed reductions to total state aid. However, districts at the mill rate maximum would continue to face the pressure of accommodating increased costs and reduced state aid solely through the growth in their property tax base.

ALTERNATIVES TO BILL

A. Mill Rate and Levy Limit

1. Approve the Governor's recommendation to limit the amount of property taxes levied by each WTCS district for all purposes except debt service to the rate of change in the consumer price index or the amount that would be generated by a 1.5 mill rate, whichever is less. Permit the district boards to exceed the limit if approved through a referendum, except that the 1.5 mill rate limit could not be exceeded.

2. Modify the Governor's recommendation to apply only to 2002-03.

3. Delete the Governor's recommendation and, instead, limit the operational mill rate for technical college districts in 2002-03 so that it could not exceed the 2001-02 operational mill rate. Permit the district boards to exceed the 2001-02 operational mill rate, provided the rate does not exceed 1.5 mills, if approved through a referendum.

4. Maintain current law.

B. Limitation on Increase in Fees

1. Approve the Governor's recommendation to specify that program fees charged students in 2002-03 could not exceed the fees charged students in 2001-02 by more than 10%.

2. Maintain current law.

Prepared by: John Stott