



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #607

Low-Revenue Ceiling (DPI -- General School Aids and Revenue Limits)

[LFB 2003-05 Budget Summary: Page 349, #5]

CURRENT LAW

Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, the property tax levy (excluding levies exempted from the limit) and computer aid is restricted. Actual general aids, computer aid and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the allowable revenue limit increase for the current school year. A per pupil revenue limit increase, which is adjusted annually for inflation, is added to the base revenue per pupil for the current school year. In 2002-03, this per pupil increase is \$230.08. Under revenue limits, three-year rolling averages of membership are used to calculate base-year and current-year revenues per pupil. There are several adjustments that are made to the standard revenue limit calculation, such as the low-revenue ceiling, the declining enrollment adjustment and the carryover of unused revenue limit authority. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A school district can also exceed its revenue limit by receiving voter approval at a referendum.

In 2002-03, any school district with a base revenue per pupil under revenue limits that is less than the low-revenue ceiling of \$6,900 was allowed to increase its per pupil revenues up to the ceiling. Under this provision, base revenue per pupil is determined by: (a) calculating the sum of the district's prior year general school aids, computer aid and the property tax levy; (b) dividing the sum under (a) by the average of the district's September membership for the three prior school years; and (c) adding the allowable per pupil revenue limit increase (\$230.08 in 2002-03) to the result. If a school district has resident pupils who were solely enrolled in a county children with disabilities education board (CCDEB) program, costs and pupils related to that program are factored into the district's base revenue per pupil calculation. Under current law, the low-revenue ceiling will remain at \$6,900 per pupil in subsequent years.

GOVERNOR

Increase the low-revenue ceiling to \$7,400 in 2003-04 and \$7,800 in 2004-05.

DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. The low-revenue ceiling was enacted in the 1995-97 biennial budget act. That act set the low-revenue ceiling at \$5,300 in 1995-96 and \$5,600 in 1996-97. In every subsequent biennial budget act, the low-revenue ceiling has been increased by either \$200 or \$300 per year.

2. The following table shows the low-revenue ceiling amount for each year since 1995-96. The table also shows the statewide eligible revenue limit increase generated in each year by the low-revenue ceiling, the number of school districts that were eligible for the adjustment and the number of districts that underlevied by an amount greater than the amount generated by the low-revenue adjustment (in other words, the number of districts that did not utilize any portion of the low-revenue adjustment in the given year). The Norris School District is excluded from consideration in this paper because it receives the majority of its funding from the federal government, and is both a residential facility and a school district.

Low-Revenue Ceiling

<u>Year</u>	<u>Low-Revenue Ceiling</u>	<u>Total Eligible Increase Generated by Revenue Adjustment</u>	<u>Number of Districts Eligible for Low-Revenue Adjustment</u>	<u>Number of Districts with Underlevy Greater than Low-Revenue Adjustment</u>
1995-96	\$5,300	\$7,037,000	29	5
1996-97	5,600	7,675,800	33	3
1997-98	5,900	5,865,100	41	6
1998-99	6,100	1,767,000	16	4
1999-00	6,300	1,961,900	5	5
2000-01	6,500	600,500	6	4
2001-02	6,700	667,800	4	3
2002-03	6,900	508,600	2	1

3. The low-revenue adjustment for school districts with per pupil revenues below the revenue ceiling is intended to decrease the disparity between low-revenue and high-revenue school districts in the state by providing additional revenue limit authority to low-revenue districts. In 2002-03, maximum revenues per pupil, including all exemptions and adjustments, range from \$6,756 (North Cape) to \$13,547 (Maple Dale-Indian Hill). Eighty percent of all districts in the state have revenue per pupil of between \$7,181 and \$9,089.

4. The low-revenue ceiling does not provide eligible districts with a full exemption from the revenue limit. Instead, it allows an eligible school district to increase its per-pupil revenues under revenue limits up to a specific amount.

5. When the low-revenue ceiling was increased in past budget acts, additional funding was provided in general school aids to maintain state two-thirds funding of partial school revenues, based on the estimated increase in partial school revenues generated by the increase and assumptions on the amount of low-revenue authority that would be utilized by districts. Under the bill, the state's two-thirds funding goal would be eliminated, meaning no additional funding is automatically provided for the proposed increase in the low-revenue ceiling. The bill would, however, provide an additional \$40 million in 2003-04 and \$60 million in 2004-05 from the transportation fund for general school aids.

6. It is estimated that no districts would fall below the current law low-revenue ceiling of \$6,900 in 2003-04 or 2004-05. Under the bill, an estimated 53 school districts would be eligible for an adjustment under a low-revenue ceiling of \$7,400 in 2003-04 and an estimated 88 districts would be eligible under a low-revenue ceiling of \$7,800 in 2004-05. If all districts fully utilize the additional authority under the proposed levels for the low-revenue ceiling, they would collectively raise additional estimated revenue of \$8.6 million in 2003-04 and \$16.7 million in 2004-05. On a per-pupil basis, the proposed levels for the low-revenue ceiling would allow eligible districts to raise an additional estimated \$4 to \$408 in revenue in 2003-04 and an additional estimated \$3 to \$186 in 2004-05.

7. Given that the total amount generated by the low-revenue adjustment and the number of districts eligible for the adjustment have declined in recent years, it could be argued that the relatively large increases in the low-revenue ceiling proposed by the Governor (\$500 in 2003-04 and \$400 in 2004-05) are appropriate to restore the ability of this adjustment to reduce the disparity between low- and high-revenue districts. Under the bill, the estimated total additional revenue that would be generated by the proposed low-revenue ceiling levels and the estimated number of districts that would be eligible for the adjustment in the 2003-05 is expected to be greater than any year since the creation of the low-revenue adjustment.

8. As shown in the table, when the low-revenue ceiling provided for a relatively large total adjustment to a relatively large number of districts, most districts took advantage of at least some of the additional revenue limit authority provided. A fairly constant number of districts have not utilized the low-revenue adjustment since its enactment. Thus, it could be argued that, while a certain number of districts with unique circumstances will not take advantage of additional low-revenue authority, a low-revenue ceiling that provides a meaningful adjustment could be effective in reducing revenue disparities among districts.

9. Further, although some eligible school districts may not have utilized the low-revenue adjustment authority in a given year, since 1995-96 districts have been eligible to carry over 75% of any unutilized revenue limit authority into the following year. Thus, a school district that in the past had not used all of its low-revenue authority would still be able to utilize some portion of it

for future needs. School districts with declining enrollments or increased costs, for example, may be in a situation where a low-revenue adjustment would be particularly advantageous for the financial stability of the district.

10. In past years, annual increases of \$200 or \$300, which are approximately equivalent to the annual per pupil adjustment under revenue limits, were provided to the low-revenue ceiling. The Committee may wish to increase the revenue ceiling by \$300 annually in the 2003-05 biennium, which would be closer to the per pupil annual adjustment under revenue limits estimated under the bill and more consistent with recent adjustments.

11. An estimated seven school districts would be eligible for an adjustment up to a \$7,200 ceiling in 2003-04, while an estimated 16 school districts would be eligible for an adjustment up to a \$7,500 ceiling in 2004-05. If all districts fully utilized the additional authority under these levels for the low-revenue ceiling, they would collectively raise additional revenue of an estimated \$300,000 in 2003-04 and \$520,000 in 2004-05. On a per-pupil basis, the proposed levels for the low-revenue ceiling would allow eligible districts to raise an additional estimated \$3 to \$208 in revenue in 2003-04 and an additional estimated \$10 to \$64 in 2004-05.

12. Those opposed to increasing the low-revenue adjustment argue that while it may allow school districts with the lowest per pupil revenues to expand educational opportunities, it could also have an impact on the local levy in those districts that utilize the additional authority. Furthermore, they contend that even without the low-revenue adjustment, current law already allows school districts to exceed the limit through referendum and that using this option would ensure local support of the district's decision to spend or tax at higher levels.

13. In addition, low-revenue districts already benefit in percentage terms from the flat dollar adjustment per pupil under revenue limits. The estimated per pupil adjustment in 2003-04, for example, would generate allowable per pupil growth in the range of 3.3% to 3.5% above base revenues for the 10% of districts with the lowest revenue per pupil in 2003-04. For the 10% of districts with the highest revenue per pupil, the same dollar increase per pupil would generate increases of approximately 1.8% to 2.7% above base revenues. One can argue that this aspect of revenue limits will gradually decrease the revenue disparities between districts in percentage terms over time.

14. Relatively few districts in recent years were eligible for the low-revenue adjustment, and at least half of the districts that were eligible during this time did not utilize any of the authority provided under the adjustment. Because of the relatively limited scope of the low-revenue ceiling, it could be argued that relatively low-revenue districts have either gone to referendum to obtain additional revenue limit authority for educational programming or have adequately adjusted their budgets within the framework provided under the standard revenue limit calculation.

15. In his State of the State address in January of 2003, the Governor announced that he would be forming a Governor's task force on education financing to comprehensively examine and make recommendations to reform the way the state funds K-12 education. It could be argued that

no change be made to the low-revenue ceiling as part of the budget, and that the issue of revenue limits and resource disparity between school districts be addressed comprehensively as part of the task force's efforts.

ALTERNATIVES

1. Adopt the Governor's recommendation to increase the low-revenue ceiling to \$7,400 in 2003-04 and \$7,800 in 2004-05.
2. Modify the Governor's recommendation to, instead, increase the low-revenue ceiling to \$7,200 in 2003-04 and \$7,500 in 2004-05.
3. Delete provision.

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