



Legislative Fiscal Bureau

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

May 15, 2007

Joint Committee on Finance

Paper #627

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

Bill Agency

[LFB 2007-09 Budget Summary: Page 462, #5]

CURRENT LAW

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. 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 district's allowable revenue 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 2006-07, this per pupil increase is \$256.93. 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 and the declining enrollment adjustment. 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 2006-07, any school district with a base revenue per pupil under revenue limits that is less than the low-revenue ceiling of \$8,400 per pupil is allowed to increase its per pupil revenues up to the \$8,400 per pupil 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 property tax levy; (b) dividing the sum under (a) by the average of the district's membership for the three prior school years; and (c) adding the allowable per pupil revenue limit increase (\$256.93 in 2006-07) 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 \$8,400 per pupil in subsequent years.

GOVERNOR

Increase the low-revenue ceiling to \$8,700 per pupil in 2007-08 and \$9,000 per pupil in 2008-09 and thereafter.

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 per pupil in 1995-96 and \$5,600 per pupil in 1996-97. In each subsequent biennial budget act, the low-revenue ceiling has been increased, typically by \$200 or \$300 per pupil each year. The 2003-05 budget act, however, increased the low-revenue ceiling by \$500 per pupil in 2003-04 and \$400 per pupil in 2004-05.

2. Table 1 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, a residential school that is in a district consisting almost entirely of school property and that gets most of its support from state and federal aid, is excluded from consideration in this paper.

TABLE 1

Low-Revenue Ceiling History

<u>Year</u>	<u>Low-Revenue Ceiling</u>	<u>Total Eligible Increase Generated by Low-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	2
2002-03	6,900	508,100	2	1
2003-04	7,400	7,261,800	52	5
2004-05	7,800	18,431,900	87	5
2005-06	8,100	7,343,300	85	9
2006-07	8,400	8,202,600	94	7

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. Table 2 shows the base revenue per pupil for the highest and lowest school district for 1994-95, the year prior to enactment of the low-revenue ceiling, and for 2005-06. These base revenue figures were the starting points for the 1995-96 and 2006-07 revenue limit calculations. As shown in the table, the base revenue per pupil for the lowest district increased by 76%, while for the highest it increased only 25%. In 1994-95, the highest district had per pupil revenue 2.7 times that of the lowest district. By 2005-06, that ratio had decreased to 1.9. To look beyond the districts at the extremes, Table 2 also shows the base revenue per pupil for the districts at the 95th and 5th percentiles for the two years. The disparity in base revenue per pupil between these districts also declined during the time period.

TABLE 2

Base Revenue per Pupil for Selected Districts

	<u>1994-95 Base For 1995-96 Limit</u>	<u>2005-06 Base For 2006-07 Limit</u>	<u>Percent Change</u>
Highest	\$11,584	\$14,484	25.0%
Lowest	\$4,287	\$7,551	76.1%
Ratio, Highest to Lowest	2.70	1.92	
95th Percentile	\$7,799	\$10,440	33.9%
5th Percentile	\$5,038	\$8,090	60.6%
Ratio, 95th to 5th Percentile	1.55	1.29	

4. Under current law, it is estimated that one district would fall below the current law \$8,400 per pupil low-revenue ceiling in 2007-08 and that no districts would fall below it in 2008-09. Using 2006-07 base revenues and membership and assuming no other changes to enrollment or current law revenue limits, an estimated 89 school districts would be eligible for an adjustment under a low-revenue ceiling of \$8,700 per pupil in 2007-08 and an estimated 99 districts would be eligible for an adjustment under a low-revenue ceiling of \$9,000 per pupil in 2008-09. If all districts fully utilized the additional authority under the proposed levels for the low-revenue ceiling, they would collectively raise additional estimated revenue of \$5.3 million in 2007-08 and an additional \$4.5 million in 2008-09.

5. If used by school districts, the additional revenue limit authority would be funded by a combination of general school aids, computer aid, and property taxes. Under SB 40, an additional \$79.3 million in 2007-08 and \$156.1 million in 2008-09 in additional general school aids funding would be provided.

6. It could be argued that the increases in the low-revenue ceiling proposed by the

Governor would make roughly the same number of districts eligible for the adjustment in the 2007-09 biennium as have been eligible over the last three years. While the total amount generated by the adjustment under SB 40 is estimated to be slightly lower than the amount generated over the last four years, the low-revenue ceiling amounts in the bill would still maintain the ability of the adjustment to reduce the disparity between low- and high-revenue districts.

7. As shown in Table 1, in those years that the low-revenue ceiling applied to more than a handful 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, for most districts with lower revenues, a low-revenue ceiling that provides a meaningful adjustment could be effective in reducing revenue disparities among districts.

8. In January, 2007, the Joint Legislative Council Special Committee on Review of State School Aid Formula expressed consensus to increase the low-revenue ceiling by \$400 per pupil in each year of the 2007-09 biennium, to \$8,800 per pupil in 2007-08 and \$9,200 per pupil in 2008-09. During its deliberations, the Special Committee felt that a larger increase in the low-revenue ceiling would target additional resources to lower-revenue districts to address concerns that have been raised about the adequacy of K-12 funding in the state.

9. A relatively larger increase in the low-revenue ceiling would also better maintain the value of the low-revenue ceiling in relation to the per pupil adjustment. As the per pupil adjustment, which will be \$264 in 2007-08 and is estimated at \$270 in 2008-09, approaches the \$300 per pupil increases in the low-revenue ceiling proposed under the bill, the additional amount allowed under the low-revenue ceiling decreases, to \$36 per pupil in 2007-08 and \$30 per pupil in 2008-09.

10. Under the Special Committee's recommendation, an estimated 124 school districts would be eligible for an adjustment under a low-revenue ceiling of \$8,800 in 2007-08 and an estimated 154 districts would be eligible for an adjustment under a low-revenue ceiling of \$9,200 in 2008-09. If all districts fully utilized the additional authority under these amounts for the low-revenue ceiling, they would collectively raise additional estimated revenue of \$22.6 million in 2007-08 and an additional \$32.0 million in 2008-09.

11. 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.

12. In addition, low-revenue districts already benefit in percentage terms from the flat dollar adjustment per pupil under revenue limits. The \$256.93 per pupil adjustment in 2006-07, for example, generates allowable per pupil growth in the range of 3.2% to 3.4% above base revenues for the 5% of districts with the lowest base revenue per pupil. For the 5% of districts with the

highest base revenue per pupil, the same dollar increase per pupil generates increases of approximately 1.8% to 2.5% 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.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to increase the low-revenue ceiling to \$8,700 per pupil in 2007-08 and \$9,000 per pupil in 2008-09 and thereafter.
2. Modify the Governor's recommendations to increase the low-revenue ceiling to \$8,800 per pupil in 2007-08 and \$9,200 per pupil in 2008-09 and thereafter.
3. Delete provision.

Prepared by: Russ Kava