



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #525

State Support for K-12 Education, General School Aids, and Revenue Limits -- Base Reduction (DPI -- General School Aids and Revenue Limits)

[LFB 2011-13 Budget Summary: Page 342, #1; Page 345, #2; Page 345, #5]

CURRENT LAW

Article X, Section 3, of Wisconsin's Constitution specifies that the Legislature is responsible for the establishment of public school districts which are to be "as nearly uniform as practicable" and "free and without charge for tuition to all children." Under s. 121.01 of Wisconsin Statutes, it is declared that it is "the policy of this state that education is a state function" and "that some relief should be afforded from the local general property tax as a source of public school revenue where such tax is excessive, and that other sources of revenue should contribute a larger percentage of the total funds needed." That section also states that "in order to provide reasonable equality of educational opportunity for all the children of this state, the state must guarantee that a basic educational opportunity be available to each pupil," with the state contributing to a district's educational program only if it meets state standards.

Under revenue limits, the amount of revenue a school district can raise from general school aids, computer aid, and property taxes is restricted. A district's base revenue in a given year is equal to the general aid, computer aid, and property tax revenues received in the prior school year. Base revenue is divided by the average of the district's enrollments in the prior three years to determine its base revenue per pupil. A per pupil adjustment is added to the base revenue per pupil to determine the district's current year revenue per pupil. In 2010-11, the per pupil adjustment is \$200. Under the 2009-11 biennial budget act, the adjustment would equal \$275 in 2011-12 and that amount would be adjusted for inflation annually beginning in 2012-13. Current year revenue per pupil is then multiplied by the average of the district's enrollments in the current and prior two years to determine the district's initial revenue limit. 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 district can also exceed its revenue limit by receiving voter approval at a referendum.

The general school aids appropriation funds equalization, integration, and special adjustment aid. (High poverty aid, which is also a form of general aid, is funded from a separate appropriation.) Almost all of the funding in the appropriation is distributed through the equalization aid formula. A major objective of the formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. There is an inverse relationship between equalization aid and property valuations. Districts with lower per pupil property values receive a larger share of their costs through the formula than districts with higher per pupil property values.

The 2003-05 biennial budget act eliminated the state's two-thirds funding commitment and the associated statutory provisions. General school aids funding is now provided in a sum-certain appropriation, with the funding level determined through the budget process similar to most other state appropriations. State support of K-12 education under the two-thirds funding commitment was defined in statute based on the concept of partial school revenues, which includes only revenues received by districts from state aid and the property tax levy. The statutes defined both the numerator and denominator of the two-thirds calculation. The numerator was the sum of general and categorical aids, the school levy tax credit, and the general program operations appropriation for the Wisconsin Educational Services Program for the Deaf and Hard of Hearing and the Wisconsin Center for the Blind and Visually Impaired. The denominator of the two-thirds funding calculation (partial school revenues) was, with certain exceptions, the sum of state general and categorical aids and gross property taxes levied, including computer aid, for districts.

GOVERNOR

Modify the revenue limit calculation to delete the per pupil adjustment provisions under current law and instead reduce base revenue per pupil for each district by 5.5% in 2011-12 and make no adjustment to base revenue per pupil in 2012-13. The bill would also delete current law references to the 2012-13 revenue limit provisions applying to subsequent years.

Delete \$390,546,000 in 2011-12 and \$358,842,000 in 2012-13 in the general school aids appropriation. Funding in the appropriation would decrease from \$4,652,500,000 in 2010-11 to \$4,261,954,000 in 2011-12 and \$4,293,658,000 in 2012-13. This would result in changes to the prior year of -8.4% and 0.7%, respectively.

Table 1 shows the level of state support for K-12 education in 2010-11, using the categories of state funding that were included in state support under the two-thirds funding commitment prior to its repeal, and the funding levels proposed by the Governor under the bill for the 2011-13 biennium.

TABLE 1

**State Support for K-12 Education -- SB 27/AB 40
(\$ in Millions)**

	2010-11 <u>Base Year</u>	<u>Governor's Proposal</u>		Change to	
		<u>2011-12</u>	<u>2012-13</u>	<u>Base Year Doubled</u> <u>Amount</u>	<u>Percent</u>
<u>State Funding:</u>					
General School Aids	\$4,671.2	\$4,278.8	\$4,310.5	-\$753.1	-8.1%
Categorical Aids	653.8	607.8	611.5	-88.3	-6.8
School Levy/First Dollar Credits	897.4	897.4	897.4	0.0	0.0
State Residential Schools	<u>11.8</u>	<u>11.2</u>	<u>11.2</u>	<u>-1.2</u>	<u>-5.1</u>
Total	\$6,234.2	\$5,795.2	\$5,830.6	-\$842.6	-6.8%
Estimated Partial School Revenues	\$9,899.7	\$9,434.7	\$9,485.5		
Estimated State Share	63.0%	61.4%	61.5%		

DISCUSSION POINTS

1. Revenue limits control the level of school district resources from state general aids and the local property tax levy, which are the two largest sources of revenue for districts. Under the revenue limit framework, resources must come from either general aid or the property tax levy to fund school district spending. If additional general aid funding is provided, the property tax levy would be reduced by a corresponding amount. If general aid funding is reduced, school boards have the authority to backfill the aid reduction through the levy.

2. If the per pupil adjustment is reduced, however, then the state would not need to provide as much general aid to achieve a given levy amount. Similarly, a set amount of general aid with a reduced per pupil adjustment would result in a lower levy amount.

3. The \$749.4 million reduction in the general aids appropriation in the biennium under the bill is part of the administration's goal of balancing the state general fund without any broad-based increases to general fund taxes. The 5.5% reduction in base revenue per pupil in 2011-12 and no adjustment in 2012-13 under the bill would minimize the impact of the aid reduction on the statewide school property tax levy by reducing revenue limit authority by \$464.6 million each year compared to the base year (after consideration of a separate bill provision to set the low revenue adjustment at \$8,900 per pupil in 2011-12). Under the bill, it is estimated that the statewide gross school levy would increase by 0.3% in 2011-12 and 0.4% in 2012-13.

4. The changes to collective bargaining in 2011 Act 10 are intended to provide districts with additional options for managing the revenue limit reductions in the bill. The act prohibits a district from bargaining collectively with respect to any factor or condition of employment except total base wages, which would not be allowed to increase by more than the change in the consumer

price index, unless approved by referendum. Act 10 requires that district employees make a contribution to the Wisconsin Retirement System (WRS) in an amount equal to one-half of all actuarially-required contributions (currently 5.8% of earnings). Under Act 10, health care coverage and employee contributions for this coverage may be modified by the district, because health care benefits are no longer a subject of collective bargaining for employees. Further, districts that participate in a health insurance plan offered by the state Group Insurance Board would not be able to pay more than 88% of the average premium cost of plans offered in any tier with the lowest employee premium cost.

5. To the extent districts are under a contract with their employees into the 2011-13 biennium and the employees are not willing to re-open the contract, districts would be unable to utilize the Act 10 modifications. Also, to the extent that employees currently pay out-of-pocket some or all of the employee-required retirement contributions, the effect of the Act 10 modifications on a district's budget would be reduced. While districts would have greater latitude to select employee health care coverage plans and to determine the premium cost sharing between employers and employees, the magnitude of any future modifications cannot be predicted or quantified.

6. The level of state resources for the support of K-12 education increased significantly as a result of the two-thirds commitment. In the years immediately prior to 1994-95, GPR school aids and the school levy credit constituted approximately 34% of total state general fund appropriations. During and after the two-thirds commitment, funding in those appropriations generally constituted 43% to 44% of state general fund appropriations. Under the bill, it is estimated that these appropriations will make up 41% to 42% of state general fund appropriations.

7. In the most recent Supreme Court case regarding the constitutionality of the school finance system in 2000 (Vincent v. Voight), the Court held that the state school finance system did not violate either the uniformity clause or the equal protection clause of the state Constitution. The Court also found that "the present school finance system more effectively equalizes the tax base among districts" than the system upheld as constitutional in the previous school finance decision of the Court in 1989 (Kukor v. Grover). The Court noted that this was due in part to the significant increase in state funding that occurred in the time between the two decisions.

8. In the Vincent decision, the Court also reaffirmed that "the Legislature is entitled to deference in its legislative policy involving fiscal-educational decisions." Within the constitutional and statutory framework, then, the Legislature has the role of balancing the various competing policy goals for K-12 funding within the context of the overall state budget. The needs of other programs funded from the general fund (such as higher education, medical assistance, shared revenue, and corrections), as well as the overall size and condition of the state's general fund, must also be considered in determining the level of state support provided to K-12 education.

9. During public hearings on the budget bill, the Committee heard testimony on the effects of revenue limits on school district operations. This testimony generally indicated that the revenue limit reduction in the bill would have an adverse effect on the ability of districts to maintain ongoing educational programs.

10. There are a number of options the Committee could adopt with respect to revenue limits, based on the overall level of partial school revenues, state aid, and statewide levy that is judged to be appropriated. Modifying the per pupil reduction percentage would affect the overall level of partial school revenues. Table 2 shows the change to the bill in partial school revenues that would result from four alternative percentage reductions in base revenue per pupil in 2011-12. (The amounts shown in Table 2 include the effect of a separate bill provision to set the low revenue ceiling adjustment at \$8,900 per pupil in 2011-12, which would affect more districts as the percentage reductions increase and result in a smaller change in partial school revenues.)

TABLE 2

**Change in Partial School Revenues Under Alternative
2011-12 Base Revenue Per Pupil Percentage Reductions
(\$ in Millions)**

<u>Percent Reduction</u>	<u>Change in Partial School Revenues</u>	
	<u>2011-12</u>	<u>2012-13</u>
4.5%	\$84.2	\$83.8
5.0	41.6	41.3
5.5 (Bill)	0.0	0.0
6.0	-37.6	-35.9
6.5	-73.0	-70.5

11. If the per pupil reduction were reduced to 4.5% or 5.0% and additional revenue is available in the general fund, general aid funding could be increased by the amounts shown in Table 2 to mitigate the effect on the statewide school levy. If additional funding is not adopted under an alternative to reduce the per pupil reduction, districts would have the ability under revenue limits to raise, in total, the amounts shown in Table 2 from property taxes.

12. If the per pupil reduction were increased to 6.0% or 6.5%, general aid funding could be decreased by the amounts shown in Table 2 without having an effect on the statewide school levy under revenue limits. If general aid funding is not reduced under an alternative to increase the per pupil reduction, property taxes under revenue limits would decrease, in total, by the amounts shown in Table 2.

13. Under the bill, the per pupil adjustment under revenue limits would be changed from a dollar amount to a percentage amount. Providing a positive flat dollar adjustment as under current law provides lower-revenue districts with a greater percentage increase than higher-revenue districts. Similarly, requiring a negative percentage adjustment to all districts as under the bill provides lower-revenue districts with less of a per pupil reduction relative to high-revenue districts.

14. When revenue limits were first imposed in 1993-94, the allowable increase in revenue per pupil could not exceed a flat dollar amount or the rate of inflation, whichever resulted in

the higher revenue amount for the particular district. This aspect of the revenue limit calculation applied only for the 1993-94 and 1994-95 school years. The 1995-97 budget act eliminated the option for the inflation rate adjustment, in part because a flat dollar amount would reduce the disparity in revenue per pupil among districts in the state over time and it would provide property tax relief for taxpayers in higher revenue districts.

15. Table 3 shows the per pupil revenue limit reductions that would result from each of the percentage reductions shown in Table 2. Under the 5.5% reduction in base revenue per pupil in the bill, for example, the district with the highest per pupil revenue in the state would realize a per pupil reduction of \$1,094. The district at the 95th percentile in terms of per pupil revenue would get a \$664 per pupil reduction, while the district at the 5th percentile would realize a \$517 per pupil reduction. The district with the lowest per pupil revenue would get a \$482 per pupil reduction.

TABLE 3

Per Pupil Revenue Reductions Under Various Percentage Reductions

Percent Reduction	Base Revenue Per Pupil Reduction Amounts			
	Highest Revenue District	95 th Percentile District	5 th Percentile District	Lowest Revenue District
4.5%	-\$895	-\$543	-\$423	-\$395
5.0	-994	-604	-470	-439
5.5 (Bill)	-1,094	-664	-517	-482
6.0	-1,193	-724	-564	-526
6.5	-1,292	-785	-611	-570

16. The Committee could, instead, choose to specify that base revenue per pupil for all districts in 2011-12 be reduced by a flat dollar amount. To have an equivalent effect on partial school revenues as the bill, a \$560 per pupil reduction would need to be made in 2011-12. Table 4 shows the per pupil reductions that would need to be made to have the same effect on partial school revenues as the percentage reductions shown in Table 2. If an alternative level of reduction is chosen, the effect on general aid funding and the statewide levy as described earlier would apply.

TABLE 4

2011-12 Per Pupil Reductions Equivalent to Percentage Reductions

<u>Percent Reduction</u>	<u>Equivalent Per Pupil Reduction</u>
4.5%	-\$455
5.0	-505
5.5 (Bill)	-560
6.0	-615
6.5	-670

17. Table 5 shows the percentage reduction in per pupil revenues that would result for various districts under each of the per pupil reductions shown in Table 4. A \$560 per pupil reduction in 2011-12 would, for example, result in a 2.8% reduction for the district with the highest base revenue per pupil. The district at the 95th percentile in terms of per pupil revenue would incur a 4.6% per pupil reduction, while the district at the 5th percentile would realize a 6.0% per pupil reduction. The district with the lowest per pupil revenue in the state would receive a 6.4% per pupil reduction.

TABLE 5

Percentage Reductions Under Various Per Pupil Reductions

<u>Percent Reduction</u>	<u>Base Revenue Per Pupil Reduction Amounts</u>			
	<u>Highest Revenue District</u>	<u>95th Percentile District</u>	<u>5th Percentile District</u>	<u>Lowest Revenue District</u>
-\$455	-2.3%	-3.8%	-4.8%	-5.2%
-505	-2.5	-4.2	-5.4	-5.8
-560	-2.8	-4.6	-6.0	-6.4
-615	-3.1	-5.1	-6.5	-7.0
-670	-3.4	-5.5	-7.1	-7.6

18. Revenue limits were made permanent in the 1995-97 biennial budget by including language under which the revenue limit calculation that applies to the last year specified in statutes would also apply to each school year thereafter. As drafted, the bill sets the revenue limit calculation for the 2011-12 and 2012-13 school years, but deletes current law language under which the 2012-13 calculation would also apply to future years. Administration officials indicate that it was not the Governor's intent to delete this language, and that the 2012-13 calculation should also apply to future years.

19. Under the bill as drafted, school districts would not be under revenue limits

beginning in the 2013-14 school year. The 2013-15 Legislature would have the ability to restore revenue limits, but it would require a statutory change to do so. Under the bill as modified to reflect the Governor’s intent, the 2012-13 revenue limit calculation, with no per pupil adjustment, would continue in future years. The 2013-15 Legislature could change the law to modify the per pupil adjustment or other aspects of revenue limits.

ALTERNATIVES

A. Options for Differing Levels of Revenue Limit Authority

-5.5% or -\$560 Per Pupil Reduction -- Governor's Level of Revenue Limits

1. Approve the Governor’s recommendations to: (a) reduce base revenue per pupil under revenue limits for each school district by 5.5% in 2011-12 and make no adjustment to base revenue per pupil in 2012-13; and (b) delete \$390,546,000 in 2011-12 and \$358,842,000 in 2012-13 in general school aids.

2. Modify the bill to set the per pupil adjustment at -\$560 in 2011-12 and \$0 in 2012-13.

-4.5% or -\$455 Per Pupil Reduction -- Restore \$168 Million of Revenue Limit Authority

3. Modify the bill to reduce base revenue per pupil by 4.5% in 2011-12.

4. Modify the bill to set the per pupil adjustment at -\$455 in 2011-12 and \$0 in 2012-13.

5. In addition to either Alternative 3 or 4, provide \$84.2 million in 2011-12 and \$83.8 million in 2012-13 in general school aids.

ALT 5	Change to Bill Funding
GPR	\$168,000,000

-5.0% or -\$505 Per Pupil Reduction -- Restore \$82.9 Million of Revenue Limit Authority

6. Modify the bill to reduce base revenue per pupil by 5.0% in 2011-12.

7. Modify the bill to set the per pupil adjustment at -\$505 in 2011-12 and \$0 in 2012-13.

8. In addition to either Alternative 6 or 7, provide \$41.6 million in 2011-12 and \$41.3 million in 2012-13 in general school aids.

ALT 8	Change to Bill Funding
GPR	\$82,900,000

-6.0% or -\$615 Per Pupil Reduction -- Delete \$73.5 Million of Revenue Limit Authority

9. Modify the bill to reduce base revenue per pupil by 6.0% in 2011-12.
10. Modify the bill to set the per pupil adjustment at -\$615 in 2011-12 and \$0 in 2012-13.
11. In addition to either Alternative 9 or 10, delete \$37.6 million in 2011-12 and \$35.9 million in 2012-13 in general school aids.

ALT 11	Change to Bill Funding
GPR	-\$73,500,000

-6.5% or -\$670 Per Pupil Reduction -- Delete \$143.5 Million of Revenue Limit Authority

12. Modify the bill to reduce base revenue per pupil by 6.5% in 2011-12.
13. Modify the bill to set the per pupil adjustment at -\$670 in 2011-12 and \$0 in 2012-13.
14. In addition to either Alternative 12 or 13, delete \$73.0 million in 2011-12 and \$70.5 million in 2012-13 in general school aids.

ALT 14	Change to Bill Funding
GPR	-\$143,500,000

B. Revenue Limits After 2012-13

1. Modify the bill to specify that the revenue limit calculation for the 2012-13 school year would apply annually thereafter.
2. Retain the bill provision that would not establish any revenue limit for 2013-14 and thereafter.

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