



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

---

May 19, 2015

Joint Committee on Finance

Paper #505

### **State Support for K-12 Education, General School Aids, and Revenue Limit Per Pupil Adjustment (DPI -- General Schools Aids and Revenue Limits)**

[LFB 2015-17 Budget Summary: Page 337, #1; Page 340, #2; Page 341, #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 restricted 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. In 2014-15, a \$75 per pupil adjustment is added to each district's base revenue per pupil to determine its current year revenue per pupil. Under current law, in 2015-16 and each year thereafter, no per pupil adjustment will be made to base revenue per pupil. 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 initial revenue limit, such as the base revenue hold harmless and declining enrollment adjustments. 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.

One measure of state support of K-12 education is based on the concept of partial school revenues. The traditional definition of partial school revenues is the sum of state general and categorical aids and the gross school property tax levy, with certain exceptions. The traditional definition of state support is the sum of state general and categorical aids, the school levy and first dollar tax credits, and the general program operations appropriation for the Program for the Deaf and Center for the Blind.

## **GOVERNOR**

Provide \$108,137,500 in 2016-17 for general school aids. General school aids funding would remain at base level funding of \$4,475,960,500 in 2015-16 and increase to \$4,584,098,000 in 2016-17. This would represent an increase of 2.4% in 2016-17 compared to the prior year. (Under the bill, the purposes of the general school aids appropriation would be modified to also fund payments for pupils who begin participating in the Racine and statewide private school choice programs after the 2014-15 school year. This bill provision is addressed in a separate issue paper.)

The bill would maintain current law as established in the 2013-15 biennial budget (2013 Act 20) under which there would be no per pupil adjustment under revenue limits in the 2015-16 school year and each year thereafter.

Table 1 shows the level of state support for K-12 education in 2014-15, using the traditional definitions of state support and partial school revenues, and the funding levels proposed by the Governor under the bill for the 2015-17 biennium.

**TABLE 1**

**State Support for K-12 Education -- SB 21/AB 21  
(\$ in Millions)**

<u>State Funding</u>	2014-15	<u>Governor</u>		<u>Change to</u>	
	<u>Base Year</u>	<u>2015-16</u>	<u>2016-17</u>	<u>Base Year Doubled</u>	<u>Amount</u>
General School Aids	\$4,492.8	\$4,492.8	\$4,600.9	\$108.1	1.2%
Categorical Aids	748.9	632.8	776.1	-88.9	-5.9
School Levy Tax Credit	747.4	853.0	853.0	211.2	14.1
First Dollar Credit	150.0	150.0	150.0	0.0	0.0
State Residential Schools	10.8	11.2	11.2	0.8	3.7
Total	\$6,149.9	\$6,139.8	\$6,391.2	\$231.2	1.9%
Estimated Partial School Revenues	\$9,872.5	\$9,810.7	\$10,023.2		
Estimated State Share	62.3%	62.6%	63.8%		

**DISCUSSION POINTS**

1. 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. In the Vincent decision, the Court also reaffirmed that "the Legislature is entitled to deference in its legislative policy involving fiscal-educational decisions." The Court also held that "so long as the Legislature is providing sufficient resources so that school districts offer students the equal opportunity for a sound basic education as required by the Constitution, the state school finance system will pass constitutional muster."

2. Subject to this constitutional and statutory framework, the Legislature has the role of balancing the various policy goals for K-12 funding within the context of the overall state budget. The competing priorities for general fund revenues, 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.

3. Under the bill, it is estimated that the appropriations for state school aids and the property tax credits identified in Table 1 above will make up 37.5% of state general fund appropriations in 2015-16 and 37.8% in 2016-17. This would include the general school aid and school levy tax credit increases proposed by the Governor and the net changes in all categorical aid appropriations under the bill.

4. On March 30, this office distributed a memorandum to the Legislature on the estimated level of property taxes under the bill. In that memorandum, it was estimated that the statewide gross school levy would increase from \$4,754.3 million in 2014-15 to \$4,812.0 million in 2015-16 and \$4,768.0 million in 2016-17. These estimates represent year-over-year changes of \$57.7 million

(1.2%) in 2015-16 and -\$44.0 million (-0.9%) in 2016-17. Even if there is no per pupil adjustment provided under revenue limits, the statewide school levy can increase due to changes in the other revenue limit adjustments, passage of additional school referenda, or changes in the levies that are outside of revenue limits.

5. Table 2 shows a summary of the estimated property tax levy under the bill, with the gross school levy shown separately from the combined gross levies for all other taxing jurisdictions. The table also shows funding for the property tax credits under the bill and the resulting net levy for each year. Finally, Table 2 shows that the estimated property tax on a median valued home would decline by \$8 in 2015-16 and by \$3 in 2016-17 under the bill compared to the prior years.

**TABLE 2**  
**Estimated Property Tax Levy**  
**Under AB 21/SB 21**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Gross School Levy (Millions)	\$4,754.3	\$4,812.0	\$4,768.0
Change to Prior Year		\$57.7	-\$44.0
All Other Levies (Millions)	\$5,629.2	\$5,752.4	\$5,880.3
Change to Prior Year		\$123.2	\$127.9
Total Gross Levy (Millions)	\$10,383.5	\$10,564.4	\$10,648.3
Change to Prior Year		\$180.9	\$83.9
School Levy Tax Credit	\$747.4	\$853.0	\$853.0
First Dollar Tax Credit	148.0	150.0	150.0
Lottery Tax Credit	<u>163.8</u>	<u>160.1</u>	<u>159.3</u>
Total Tax Credits (Millions)	\$1,059.2	\$1,163.1	\$1,162.3
Net Property Taxes (Millions)	\$9,324.3	\$9,401.3	\$9,486.0
Change to Prior Year		\$77.0	\$84.7
Estimated Tax on Median Valued Home	\$2,832	\$2,824	\$2,821
Change to Prior Year Amount		-\$8	-\$3
Percent		-0.3%	-0.1%

6. The reduction in the school levy in 2016-17 reflects the bill provision that would provide an additional \$108.1 million in general aid in that year. The increase in the school levy tax credit for both property tax years serves to reduce the net levy. To achieve the same net levy as the bill without providing the additional general aid or levy credit funding, the per pupil adjustment under revenue limits would have to be set at -\$70 in 2015-16 and -\$135 in 2016-17, assuming the base revenue hold harmless adjustment were suspended.

7. The relatively large portion of the state general fund devoted to state support of K-12 education under the bill, along with the increases in the sum of state general aid and estimated local levy, could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regard to K-12 education.

8. If the level of state and local funding provided to a particular district under the bill would be viewed as insufficient by the school board, that board would have the option to prioritize the operating budget of the district to maintain the programming which is most important to the stakeholders in the district. Further, current law allows a school district to exceed its revenue limit through referendum. The referendum option would ensure that a majority of the voters support a district's decision to spend at higher levels.

9. There are a number of options available to the Committee if it wishes to provide additional financial resources to school districts. Changes could be made to the revenue limit calculation to provide additional revenue authority to districts, with the mix of state aid and local levy dependent on whether additional general aid or levy credit funding is provided. A categorical per pupil aid appropriation was created in the 2013-15 biennial budget, which provides the same per pupil amount to all districts through a fully state-funded aid payment outside of revenue limits. (Funding for the school levy tax credit and for per pupil aid are discussed in separate issue papers.)

10. The Committee could also choose to modify the per pupil adjustment to provide additional financial resources to school districts, based on the overall level of partial school revenues, state general aid, and statewide levy that is judged to be appropriate. During public hearings on the budget bill, the Committee heard testimony from school district officials indicating that a positive per pupil adjustment under revenue limits would allow districts greater ability to maintain ongoing educational programs.

11. In estimating the potential effect of proposed changes in the per pupil adjustment on revenue limits statewide, a rule of thumb is to multiply the adjustment amount by the revenue limit enrollment count (approximately 845,000 pupils). However, because there is no per pupil adjustment under the bill, for some school districts with declining enrollment, the base revenue hold harmless adjustment duplicates all or a portion of any additional revenue limit authority that otherwise would be generated by a per pupil adjustment. As a result, the rule of thumb tends to overestimate the first-year effect of any change compared to the bill. As it relates to the property tax bill for a median-valued home, each \$10 million of additional school levy will result in an approximate \$3 increase in the property tax bill.

12. Table 3 lists the changes in statewide revenue limit authority in each year of the 2015-17 biennium that would result under four options to modify the per pupil adjustment. For example, as shown in the first line of Table 3, if a \$50 per pupil adjustment were allowed in both 2015-16 and 2016-17, statewide revenue limit authority would increase by \$22.7 million in 2015-16 and \$64.9 million in 2016-17 compared to the bill. This additional revenue limit authority would be funded from some combination of state general aid and local levy. For each of the per pupil adjustment amounts shown, four alternatives for additional general school aid funding can be considered relative to the amount of revenue limit authority generated: (a) none of the revenue limit authority funded with state aid (under which districts would have the ability under revenue limits to raise, in

total, the indicated amounts from property taxes); (b) 50% state funded; (c) 63% state funded (consistent with the estimated level of total state support under the bill in each year); and (d) 100% state funded (under which there would be no property tax impact on a statewide basis compared to the bill). Some other combination of state general aid and local levy could also be provided under any of the alternatives.

**TABLE 3**

**Revenue Limit Authority Under Options to Modify  
Per Pupil Adjustment (Change to Bill)**

	Change in Revenue Limit Authority (\$ in Millions)		
	2015-16	2016-17	Biennial
\$50/\$50 per pupil (Alt. B1)	\$22.7	\$64.9	\$87.6
\$75/\$75 per pupil (Alt. B2)	36.3	100.2	136.5
\$100/\$100 per pupil (Alt. B3)	51.7	136.6	188.3
\$150/\$150 per pupil (Alt. B4)	88.6	213.3	301.9

13. If the Committee modifies the per pupil adjustment in the 2015-17 biennium, it should also decide whether to continue that adjustment amount into the 2017-19 biennium or not. Under one alternative, the Committee could specify that there be no per pupil adjustment beginning in 2017-18 and each year thereafter (Alternative C1). This would be similar to the approach used in the last two biennial budget acts.

14. The Committee could also specify that the per pupil adjustment in 2016-17 would also apply to subsequent years (Alternative C2). This would be similar to the approach used in biennial budget acts prior to the 2011-13 biennium. Under either alternative, the 2017-19 Legislature would be able to change the law to modify the per pupil adjustment or other aspects of revenue limits. This set of alternatives would, however, specify what the per pupil adjustment would be absent a subsequent change in the law.

**ALTERNATIVES**

**A. Governor's Recommendation**

1. Approve the Governor's recommendation to provide \$108,137,500 in 2016-17 for general school aids.
2. Delete provision.

<b>ALT A2</b>	<b>Change to Bill</b>
GPR	- \$108,137,500

## B. Per Pupil Adjustments

1. Set the per pupil adjustment under revenue limits at \$50 in 2015-16 and 2016-17, and provide one of the following levels of GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2015-16</u>	<u>2016-17</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	11,350,000	32,450,000	43,800,000
c. 63% state funded	14,301,000	40,887,000	55,188,000
d. 100% state funded	22,700,000	64,900,000	87,600,000

2. Set the per pupil adjustment under revenue limits at \$75 in 2015-16 and 2016-17, and provide one of the following levels of GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2015-16</u>	<u>2016-17</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	18,150,000	50,100,000	68,250,000
c. 63% state funded	22,869,000	63,126,000	85,995,000
d. 100% state funded	36,300,000	100,200,000	136,500,000

3. Set the per pupil adjustment under revenue limits at \$100 in 2015-16 and 2016-17, and provide one of the following levels of GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2015-16</u>	<u>2016-17</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	25,850,000	68,300,000	94,150,000
c. 63% state funded	32,571,000	86,058,000	118,629,000
d. 100% state funded	51,700,000	136,600,000	188,300,000

4. Set the per pupil adjustment under revenue limits at \$150 in 2015-16 and 2016-17, and provide one of the following levels of GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2015-16</u>	<u>2016-17</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	44,300,000	106,650,000	150,950,000
c. 63% state funded	55,818,000	134,379,000	190,197,000
d. 100% state funded	88,600,000	213,300,000	301,900,000

## C. Per Pupil Adjustments in 2017-18 and Thereafter

1. In addition to any of the alternatives to modify the per pupil adjustment, specify that there would be no per pupil adjustment in 2017-18 and each year thereafter.

2. In addition to any of the alternatives to modify the per pupil adjustment, specify that the per pupil adjustment in 2016-17 would also apply in each year thereafter.

Prepared by: Russ Kava