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Joint Committee on Finance

Paper #491

Per Pupil Aid Funding Increase -- School District Certifications (Public Instruction -- General School Aid and Revenue Limits and Categorical Aids)

[LFB 2017-19 Budget Summary: Page 347, #2 (part)]

CURRENT LAW

A sum sufficient per pupil aid appropriation was established in 2013 Act 20. Each school district receives a statutorily-specified, flat per pupil aid payment, outside of revenue limits, from this appropriation. Under current law, each district receives a \$250 per pupil payment in 2016-17 and each year thereafter. A district's current three-year rolling average pupil count under revenue limits is used to calculate the aid payment. Base level funding associated with the current law \$250 per pupil amount is \$210,992,800 GPR.

GOVERNOR

Provide \$167,859,500 in 2017-18 and \$340,873,300 in 2018-19 in per pupil aid to increase the payment from \$250 per pupil in 2016-17 to up to \$450 per pupil in 2017-18 and up to \$654 per pupil in 2018-19. (The amount of the funding increase is addressed in a separate issue paper.)

A district would be eligible for an additional \$188 per pupil in 2017-18 and \$380 per pupil in 2018-19 and each year thereafter under the bill if it meets the following conditions:

- a. The school board annually submits a statement to DPI certifying that the school board will distribute this portion of aid to the school administrator of a school in the district, based on the number of pupils enrolled in the school. This requirement would be ongoing.
- b. The school district certifies to DPI in each of the 2017-18 and 2018-19 school years that employees of the school district will be required to pay at least 12 percent of all costs and

payments associated with employee health care coverage plans in that school year. This requirement would not be ongoing.

Under the bill, a district would be eligible for an additional \$12 per pupil in 2017-18 and \$24 per pupil in 2018-19, subject to the two certifications above, if the Secretary of the Department of Administration lapses funding from state compensation reserves related to the state contracting to provide self-insured group health plans for state employees. This provision would not be ongoing.

Under the bill, all districts would remain eligible for the \$250 per pupil payment under current law.

DISCUSSION POINTS

General Considerations

1. Under current law, per pupil aid is an unrestricted aid program outside of revenue limits that can be broadly used to support the operations of the school district that receives it. This is similar to general aid and the general operations property tax levy for districts, the two largest funding sources for districts, both of which are covered under school district revenue limits.

2. Under the budget bill, school districts would have to make two certifications to DPI to receive the incremental increase in per pupil aid funding. In testimony before the Committee, administration officials asserted that, given the relatively large increase in per pupil aid funding under the bill, it would be appropriate to require that districts direct that funding to classroom activities and that districts have utilized the collective bargaining modifications under 2011 Act 10 as conditions of receiving that increase.

3. During public hearings on the budget bill, the Committee heard testimony from school district officials who were generally opposed to the certification provisions because they were viewed as additional mandates on districts and unnecessary requirements for receipt of aid. To the extent that reducing mandates on local units of government is a goal, it could be viewed as inconsistent to place new requirements on districts to receive per pupil aid.

4. Comprehensive data is not available on how many districts currently would be able to meet the two certifications or on how many districts would modify their policies to be able to meet them in the 2017-19 biennium. Under the bill, school districts would have the responsibility for making the certifications and DPI would have the authority to interpret the statutory language and administer the provision.

5. With respect to the employee health care cost certification, based on discussion with staff from the 11 largest districts in the state, most felt that they would either be able to make the certification or would likely make the changes necessary to be able to make it. Also, a survey with responses from 45 districts by the Wisconsin Association of School Boards indicates that 27 districts felt that they could make the certification, while 18 would either not be able to make the

certification, would need to increase the employee contribution to be able to make it, or would need additional information or guidance on the requirement.

6. The funding provided under the bill assumes that all districts would be eligible for the full per pupil aid increase in each year of the biennium. To the extent that districts would not make the required certifications, the full amount of funding would not be paid from the sum sufficient per pupil aid appropriation. Any reestimates in the per pupil aid appropriation would be incorporated in the annual reestimates of general fund revenues and expenditures once data on the certifications would become available.

7. If the Committee decides that the certification requirements are appropriate, it could address the issue of whether they should be permanent or temporary. Under the bill, the school building pass-through certification would be ongoing, while the employee health care cost certification would apply for only the 2017-18 and 2018-19 school years. Administration staff indicate that the employee health care cost certification was made temporary because it was felt that once the employees are contributing the required amount, school districts would likely continue to that requirement, thus making it unnecessary to make this certification ongoing.

8. A similar logic could be applied to the school building pass-through certification, in that once the funding is provided to building administrators, it could create the expectation that this would continue in future years. Thus, the Committee could choose to make the school building pass-through certification apply for only the 2017-18 and 2018-19 school years, similar to the employee health care cost certification (Alternative A2).

9. Because financial conditions in school districts can change, there is no necessary reason to assume that either the employee health care cost contribution or the pass-through of funding to school buildings under the bill would continue to be met indefinitely in the absence of a state requirement to do so. To the extent that both of the certification requirements are judged to be appropriate, the Committee could choose to make both of them permanent by modifying the employee health care certification requirement to make it ongoing (Alternative B3).

10. Under either approach, the 2019-21 Legislature would be able to review the appropriateness of and compliance with the certifications in the context of total per pupil aid funding, and could change the law to extend, repeal, or otherwise modify the requirements. These alternatives would, however, specify what the certification requirements would be absent a subsequent change in the law.

School Building Pass-Through Certification

11. The bill requires that a school board certify that it will distribute the per pupil aid increase to the school administrator of a school in the district, based on the number of pupils enrolled in the school. For the purpose of calculating per pupil aid, "number of pupils enrolled" is defined by law as being the revenue limit enrollment count for districts. This count is primarily made up of resident pupils attending schools in the district, but also includes resident pupils not attending schools in the district, primarily under open enrollment.

12. In an errata request, DOA asked that the provision be clarified as it relates to the inclusion of open enrollment pupils in the revenue limit enrollment counts used for per pupil aid.

13. As drafted, districts would presumably be required to determine the current year three-year average number of pupils enrolled in each school and certify that the incremental increase in per pupil aid in each year multiplied by that enrollment figure would be distributed to the school administrator. Because open enrollment pupils would not be included in the certification count, the amount of aid subject to the certification would be less than the incremental amount paid to districts.

14. Concerns have also been raised that school districts may not budget and account for funding strictly on a school building basis, and that distributing the funding to school buildings could limit the ability of districts to undertake districtwide instructional programming.

15. To address these issues, the Committee could instead specify that schools boards certify that they will spend the total incremental increase in per pupil aid in each year on instructional expenses (Alternative A3). Under the state's uniform financial fund accounting system, the instruction function includes curricular and co-curricular costs and is separate from expenditures for district administration. This could be viewed as meeting the administration's intent without the raising the issues of the enrollment count used for the certification and district budgeting practices.

16. In 2016-17, the sum of the statewide average revenue limit per pupil, after all adjustments, and the per pupil aid payment is \$10,688. After adding the proposed per pupil aid increase, the increment of per pupil aid that would be covered under the school building pass-through certification would be 1.8% of that figure for each year of the biennium.

17. School district revenues from general and per pupil aid and the general operations levy are all unrestricted with respect to the purposes for which they can be used and are all generally fungible, or interchangeable. This factor, in addition to the relatively small proportion of total funding involved, could raise questions as to the practical effect this provision would have on district operations.

Employee Health Care Cost Certification

18. Under 2011 Act 10, school districts were prohibited from bargaining collectively with respect to any factor or condition of employment except total base wages, which are not allowed to increase by more than the change in the consumer price index, unless approved by referendum. 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.

19. Under the 2011-13 budget act, every district was subject to a 5.5% reduction in its base revenue per pupil under revenue limits in 2011-12. While the per pupil amount differed by district, on a statewide basis, this resulted in a \$554 average reduction in per pupil revenue limit authority. As a result of this provision, every district had to accommodate the loss of revenue limit authority, either through the collective bargaining modifications or by other means.

20. Districts that choose to participate in a health insurance plan offered by the state Group Insurance Board (GIB) may not pay more than 88% of the average premium cost of plans offered in any tier with the lowest employee premium cost. This is similar to current law as it generally applies to state employees, under which the state may not pay more than 88% of the average premium cost of plans offered in each tier for its insured employees. School districts that do not participate in a GIB plan are not subject to these requirements. According to the Department of Employee Trust Funds, six school districts currently offer a GIB health insurance plan to its employees.

21. During public hearings on the budget bill, the Committee heard testimony from school district officials in opposition specifically to the health care cost certification provision, because:

- the 12% employee share requirement did not apply to them under Act 10;
- it is not clear how the employee share and total costs would be defined;
- the provision does not account for other ways districts have been able to reduce health care costs, such as modifying current employee health benefits, modifying post-employment health benefits, changing health care plan design, or changing to different providers or networks; and
- it would hinder the ability of districts to craft the most suitable compensation package for employees and to attract staff.

22. In testimony before the Committee, administration officials indicated that the intent of provision was that it should be broadly construed to include any method by which school district employees contribute to district health care costs. The "all costs and payments" language of the bill would arguably provide sufficient statutory guidance to the Department for the interpretation of that provision.

23. The Committee could choose to add additional statutory language with respect to the calculation of the employee share. The Committee could, for example, choose to specify that, in making the certification, a school district can include premium contributions, self-insurance contributions, deductibles, copays, coinsurance, and other methods by which employees contribute to health care costs in determining the employee share (Alternative B5).

24. Concerns have also been raised that school districts may have either finalized or be in the process of finalizing their health insurance contracts for the 2017-18 school year, and would thus have difficulty making any changes necessary to make the employee health care cost certification for that school year. The Committee could accommodate these concerns by either specifying that the provision would apply to the 2018-19 year only if the certification remains temporary (Alternative B2) or that the certification would first apply in the 2018-19 school year if the certification is instead made permanent (Alternative B4).

ALTERNATIVES

A. School Building Pass-Through Certification

1. Approve the Governor's recommendation to require a school board, on an ongoing basis, to annually submit a statement to DPI certifying that the school board will distribute this portion of aid to the school administrator of a school in the district, based on the number of pupils enrolled in the school.
2. Modify the Governor's recommendation to specify that this requirement would apply only in each of the 2017-18 and 2018-19 school years.
3. Modify the Governor's recommendation to require a school board to certify that it will expend the incremental increase in per pupil aid on instructional costs.
4. Delete provision.

B. Employee Health Care Cost Certification

1. Approve the Governor's recommendation to require a school district to certify to DPI in each of the 2017-18 and 2018-19 school years that employees of the school district will be required to pay at least 12 percent of all costs and payments associated with employee health care coverage plans in that school year.
2. Modify the Governor's recommendation to specify that this certification would need to be made in the 2018-19 school year only.
3. Modify the Governor's recommendation to specify that this certification would be an annual ongoing requirement, beginning in the 2017-18 school year.
4. Modify the Governor's recommendation to specify that this certification would be an annual ongoing requirement, beginning in the 2018-19 school year.
5. In addition to any of the above alternatives, to specify that, in determining employee share in making this certification, a school district could include premium contributions, self-insurance contributions, deductibles, copays, coinsurance, and other methods by which employees contribute to health care costs.
6. Delete provision.

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