



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #552

Two-Thirds Funding of Partial School Revenues (DPI -- General School Aids and Revenue Limits)

[LFB 2019-21 Budget Summary: Page 316, #4]

CURRENT LAW

The state does not have a statutorily-required commitment to fund a specified percentage of statewide K-12 school revenues or costs. General school aids funding is provided in a sum-certain appropriation, with the funding level determined through the budget process similar to most other state appropriations.

GOVERNOR

Beginning in 2020-21, restore the requirement that that state fund two-thirds of K-12 partial school revenues, and restore the associated statutory provisions that existed prior to its repeal in the 2003-05 biennial budget, as modified to reflect changes to K-12 funding provisions in the intervening time.

Define "partial school revenues" as the sum of state school aids, property taxes levied for school districts, and computer aid payments to school districts, less the following: (a) the amount of any revenue limit increase due to a school board's increasing the services that it provides by adding responsibility for providing a service transferred to it from another school board; (b) the amount of any revenue limit increase due to a school board increasing the services that it provides by adding responsibility for providing a service that is transferred to it from another governmental unit for a child with a disability or for a limited-English proficient pupil; (c) the amount of any revenue limit increase due to a district depositing funds into a specified capital improvement fund; (d) the amount of property taxes levied for community service activities; (e) an amount equal to the net general aid reduction to the Milwaukee Public Schools' aid entitlement related to the Milwaukee private school choice program; and (f) the amount by which the property tax levy for

debt service on referenda-approved debt referendum exceeds \$490 million.

Define "state school aids" as the amounts appropriated under s. 20.255(2), which is the statutory subsection containing the aids for local educational programming, less the appropriations for federal and program revenue aid appropriations and the appropriations for the private school choice, independent charter school, and special needs scholarship programs, which are also under s. 20.255(2), plus the general program operations appropriation for the program for the deaf and hard of hearing and the center for the blind and visually impaired, plus the DOA appropriation for debt service costs for educational technology infrastructure financial assistance to school districts and the amount, as determined by the DOA Secretary, in the DOA appropriation for telecommunications access for educational agencies allocated for payments to telecommunications providers under contracts with school districts and cooperative educational service agencies and to make information technology infrastructure grants.

Require the Departments of Public Instruction and Administration and the Legislative Fiscal Bureau to jointly certify, by May 15, 2021, and annually by May 15 thereafter, to the Joint Committee on Finance an estimate of the amount necessary to appropriate in the general school aids appropriation in the following school year to ensure that state school aids equal two-thirds of partial school revenues. Require the Joint Committee on Finance, by June 30, 2020, and biennially by June 30 thereafter, to determine the amount appropriated in the general school aids appropriation in following school year. Modify the general school aids appropriation from a sum certain appropriation to a sum sufficient equal to the amount determined by Joint Finance in the 2020-21 fiscal year and biennially thereafter, and equal to the amount determined by law in the 2021-22 fiscal year and biennially thereafter.

DISCUSSION POINTS

1. From 1996-97 to 2002-03, the state had a commitment to fund two-thirds of K-12 partial school revenues. The 2003-05 biennial budget act deleted the two-thirds funding commitment and the associated statutory provisions. The bill would restore the two-thirds requirement and the associated statutory provisions that existed prior to repeal in the 2003-05 biennial budget, as modified to reflect changes to relevant K-12 funding provisions during the intervening time.

2. The bill provisions related to revenue limits and to funding levels for general and categorical school aids in the bill are considered in other issue papers. These provisions would determine the amount of state support provided and influence the level of partial school revenues for the upcoming biennium. This paper focuses on the issue of enacting the statutory provisions to establish the two-thirds funding goal.

3. Partial school revenues include only state aid and the property tax levy, which together typically account for approximately 90% of total K-12 revenues. This approach to measuring state support considers those costs that would be supported by the property tax in the absence of state aid. This is helpful when considering one of the primary objectives of state support for schools, which is to relieve the burden of the property tax.

4. The attachment shows state support funding and partial school revenues in each year since 1993-94, the changes in the amounts to the prior year, and the percent of partial school revenues supported by the state in each year. Also shown are those figures under the bill for 2019-20 and 2020-21. The years during which the two-thirds funding commitment applied are indicated in the attachment.

5. A number of factors would determine partial school revenues and thus the potential future cost of the proposed two-thirds commitment. Legislative decisions regarding revenue limits, including the per pupil adjustment and any other adjustments, and categorical aid funding levels would have a significant influence. Changes in local factors, such as district enrollments and referenda, would also have an impact.

6. Modifications to the definition of state school aids and partial school revenues could also potentially have an influence. When the two-thirds commitment was first put into place, partial school revenues was defined more simply as the sum of state school aids and school property taxes. The modifications to the definition during the two-thirds funding era, which would be restored under the bill, involved reducing the target for which the state would provide two-thirds support.

7. The two-thirds funding commitment would establish a default mechanism in statute for the overall level of K-12 funding. The general school aids appropriation would be treated differently from most other local assistance aids programs under the proposed approach. Every year, the three offices would make a certification to Joint Finance of the estimated amount of general aid needed to fund two-thirds of estimated partial school revenues. For even-numbered fiscal years, general aid funding would be set in the budget bill or separate legislation. For odd-numbered fiscal years, it would be the amount determined by Joint Finance.

8. Thus, the general school aid funding level would be set more on a formula basis rather than based on a legislative decision to set the aid at a certain amount, which is the case for other aid appropriations such as shared revenue and special education aids.

9. Establishing a statutory commitment could be viewed as appropriate because of the state's constitutional and statutory obligations regarding K-12 education, including providing for uniformity among districts and providing for relief from the local property tax. By establishing a certain percentage of state support, it improves the likelihood that the state will continue to provide increases in general aid as partial school revenues increase.

10. The Blue Ribbon Commission on School Funding recommended that the Legislature restore the two-thirds funding commitment to mitigate the levy impact of its revenue limit recommendations.

11. If the two-thirds funding commitment is restored, future Legislatures would be still able to change the law to modify the parameters of the commitment or the revenue limit and school aid provisions that affect it. Enacting the commitment would, however, specify what general aid funding policy would be absent a subsequent change in the law.

12. The statutory commitment of resources to K-12 education under the two-thirds

commitment could, however, limit the ability of future Legislatures to appropriate general fund revenues in other areas or to reduce the overall level of general fund taxes. To the extent that partial school revenues increase, the ongoing obligation to fund general aid at a specified percentage of partial school revenues would contribute to the out-year commitments for the general fund for future biennia.

13. Also, maintaining funding for general school aids can be difficult in economic downturns. In the issue paper prepared by this office during deliberations on the 2003-05 budget bill, it was noted that the administration at the time indicated that "due to state fiscal constraints, it is no longer feasible to maintain the state's two-thirds funding commitment." Base funding reductions were also made to the general school aids appropriation in both the 2009-11 and 2011-13 budget acts.

14. In the absence of a specific statutory commitment, the Legislature can still provide increases to state support larger than those that were typical of the two-thirds funding era, such as the increases provided in the 2005-07 and 2017-19 biennia.

15. In a May 1, 2019, letter to the Director of the Fiscal Bureau, the DOA State Budget Director requested that the two-thirds funding provisions in the bill be modified in two ways to better reflect the Governor's intent. The first modification would require DPI, DOA, and LFB to make a certification to Joint Finance by May 15, 2020, rather than 2021 as under the bill. This would be consistent with Joint Finance making a determination by June 30, 2020, for two-thirds funding to begin in 2020-21 as proposed. The second modification would include exempt personal property aid in the definition of partial school revenues, so that this newer aid program would be treated in the same manner as the similar computer aid payments that were in effect during the original two-thirds commitment.

ALTERNATIVES

1. Approve the Governor's recommendation, as modified, to require that that state fund two-thirds of K-12 partial school revenues and the associated statutory provisions, beginning in 2020-21.

2. Take no action.

Prepared by: Russ Kava
Attachment

ATTACHMENT

History of State Support and Partial School Revenues

	<u>State Support</u>		<u>Partial School Revenues</u>		Percent <u>State Support</u>
	<u>Amount</u>	<u>Change to Prior Year</u>	<u>Amount</u>	<u>Change to Prior Year</u>	
1993-94	\$2,505.9		\$5,174.7		48.43%
1994-95	2,781.3	\$275.4	5,457.7	\$283.0	50.96
1995-96	3,024.5	243.2	5,736.7	279.0	52.72
1996-97 *	4,035.4	1,010.9	6,094.1	357.4	66.21
1997-98 *	4,274.0	238.6	6,392.5	298.4	66.86
1998-99 *	4,458.7	184.7	6,714.5	322.0	66.40
1999-00 *	4,695.6	236.9	7,034.2	319.7	66.75
2000-01 *	4,932.6	237.0	7,403.7	369.5	66.62
2001-02 *	5,081.8	149.2	7,644.2	240.5	66.48
2002-03 *	5,254.4	172.6	7,919.5	275.3	66.35
2003-04	5,284.8	30.4	8,111.0	191.5	65.16
2004-05	5,336.3	51.5	8,374.6	263.6	63.72
2005-06	5,638.8	302.5	8,637.3	262.7	65.29
2006-07	5,897.9	259.1	8,927.4	290.1	66.06
2007-08	6,024.0	126.1	9,250.2	322.8	65.12
2008-09	6,296.3	272.3	9,574.1	323.9	65.76
2009-10	6,219.5	-76.8	9,731.9	157.8	63.91
2010-11	6,234.2	14.7	9,899.7	167.8	62.97
2011-12	5,802.1	-432.1	9,398.7	-501.0	61.73
2012-13	5,873.0	70.9	9,493.2	94.5	61.87
2013-14	5,987.4	114.4	9,658.6	165.4	61.99
2014-15	6,149.9	162.5	9,872.5	213.9	62.29
2015-16	6,258.4	108.5	9,975.5	103.0	62.74
2016-17	6,458.8	200.4	10,158.4	182.9	63.58
2017-18	6,830.9	372.1	10,525.0	366.6	64.90
2018-19	7,000.7	169.8	10,712.3	187.3	65.35
2019-20 (Bill)	7,338.9	338.2	11,045.3 **	333.0	66.44 **
2020-21 (Bill)	8,044.2	705.3	11,773.6 **	728.3	68.32 **

*Two-thirds funding commitment.

**Estimated.