



## Legislative Fiscal Bureau

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

---

May 19, 2009

Joint Committee on Finance

Paper #620

### **State Support of K-12 Education and General School Aids (DPI -- General School Aids and Revenue Limits)**

[LFB 2009-11 Budget Summary: Page 12, #1; Page 516, #1; and Page 519, #2]

---

#### **CURRENT LAW**

Under Article X, Section 3, of Wisconsin's Constitution, 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."

Under revenue limits, the amount of revenue a school district can raise 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 2008-09, this per pupil increase is \$274.68. 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.

General school aids, which are unrestricted aids to school districts, include equalization, integration, and special adjustment aids. The vast majority of general school aids funding 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. In pure form, this means that a district's property tax rate does not depend on the

property tax base of the district, but rather on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. There is an inverse relationship between equalization aid and property valuations. Districts with low per pupil property valuations receive a larger share of their costs through the formula than districts with high per pupil property valuations.

Equalization aid is distributed to districts according to the following payment schedule: 15% on the third Monday in September; 25% on the first Monday in December; 25% on the fourth Monday in March; and 35% on the third Monday in June. The state pays \$75 million of equalization aid on a delayed basis on the fourth Monday in July of the following school year.

The 2003-05 biennial budget act (2003 Act 33) 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.

The federal American Recovery and Reinvestment Act (ARRA) appropriated \$53.6 billion for a state fiscal stabilization fund (SFSF) to be administered by the federal Department of Education. The act specifies that funding be distributed to the states based on their relative shares of school-age and total population. The act requires states to use 81.8% of their SFSF allocations for the support of elementary, secondary, and post-secondary education and early childhood education services. With respect to K-12 education, the act requires states to first use the funds from this portion of the allocation to "provide the amount of funds, through the State's primary elementary and secondary funding formulae, that is needed to restore, in each of fiscal years 2009, 2010, and 2011, the level of state support provided through such formulae to the greater of the fiscal year 2008 or fiscal year 2009 level." The remaining 18.2% of the SFSF allocation must be used for public safety and "other government services, which may include assistance for elementary and secondary public education."

## **GOVERNOR**

Provide \$291,000,000 FED in 2008-09 for the June, 2009, equalization aid payments and require DPI to lapse \$291,000,000 GPR in 2008-09 from the general school aids appropriation to the general fund.

Provide \$277,000,000 FED in 2009-10 and \$221,000,000 FED in 2010-11 and delete

\$277,000,000 GPR in 2009-10 and \$199,054,300 GPR in 2010-11 for general school aids. Under the bill, total funding for general school aids from the general fund and federal aid would be \$4,799,501,900 in both 2008-09 and 2009-10 and \$4,821,447,600 in 2010-11.

Specify that the federal funding would be provided from a newly-created continuing appropriation for all federal monies received, as authorized by the Governor, from allocations from the SFSF under the ARRA that are distributed to districts as equalization aid. Require DPI to calculate equalization aid to school districts in 2009-10 and 2010-11 using the sum of the amounts appropriated in the state general school aids appropriation and the federal appropriation for state allocations.

The bill also contains language to incorporate into state equalization aid payments any federal funding from the SFSF that would be required to be distributed as subgrants based on districts' relative shares of funding under the federal Title I program. These provisions would require DPI to subtract from each district's equalization aid entitlement the amount of federal moneys that the district will receive in that year from the SFSF allocations that are distributed to districts as subgrants based on the districts' relative shares of funding under the federal Title I program. If the result is a positive number, DPI would be required to pay that amount to the district from the state general school aids appropriation. If the result is a negative number, DPI would be required to deduct from other state aid payments made to the district in that year an amount equal to either that difference or the amount of other state aids, whichever is less, and add the amount of the deduction to the total amount to be distributed as equalization aid.

Specify that the provisions affecting the 2008-09 fiscal year would take effect on the day after publication of the act.

The following table shows the level of state support for K-12 education in 2008-09, 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 AB 75 for the 2009-11 biennium.

**TABLE 1**  
**State Support for K-12 Education -- AB 75**  
**(\$ in Millions)**

|                                   | 2008-09<br>Base Year | Governor's Proposal |            | Change to<br>Base Year Doubled |         |
|-----------------------------------|----------------------|---------------------|------------|--------------------------------|---------|
|                                   |                      | 2009-10             | 2010-11    | Amount                         | Percent |
| <u>State Funding:</u>             |                      |                     |            |                                |         |
| General Aids                      | \$4,799.5            | \$4,799.5           | \$4,821.4  | \$21.9                         | 0.2%    |
| High Poverty Aid                  | 12.0                 | 15.0                | 15.0       | 6.0                            | 25.0    |
| Categorical Aids                  | 650.9                | 653.9               | 655.7      | 7.8                            | 0.6     |
| School Levy/First Dollar Credits  | 822.4                | 822.4               | 822.4      | 0.0                            | 0.0     |
| State Residential Schools         | 11.5                 | 12.1                | 12.1       | 1.2                            | 5.2     |
| Total                             | \$6,296.3            | \$6,302.9           | \$6,326.6  | \$36.9                         | 0.3%    |
| Estimated Partial School Revenues | \$9,574.1            | \$9,818.8           | \$10,128.9 |                                |         |
| Estimated State Share             | 65.8%                | 64.2%               | 62.5%      |                                |         |

## DISCUSSION POINTS

### Federal Offset of State Equalization Aid Funding

1. The federal Department of Education estimates that Wisconsin will receive \$876.9 million from the SFSF, with \$717.3 million under the education stabilization fund and \$159.6 million under the government services fund. Under AB 75, a total of \$789 million from the SFSF would be provided for equalization aid. Thus, under the bill, all of the education stabilization fund and \$71.7 million of the government services fund would be used for equalization aid.

2. The bill would provide \$291 million in federal funding for equalization aid in 2008-09 and require DPI to lapse an equal amount of funding from the state GPR appropriation for general school aids related to the June, 2009, equalization aid payment. DPI estimates that nearly \$1.6 billion in equalization aid entitlements will be paid in June, 2009. In the 2009-11 biennium, the bill would appropriate federal funding for equalization aid and make offsetting reductions to the state GPR general school aid appropriation.

3. In April, 2009, the Department of Education issued guidance on the process of awarding funds from the SFSF and additional program requirements. Funding will be awarded in two phases. In the application for the first phase, states need to: (a) provide assurances that the state will work to achieve equity in teacher distribution, improve collection and use of data, enhance the quality of standards and assessments, and support struggling schools; (b) confirm the Department of Education's baseline data on the state's current status in those areas or submit alternative baseline data; (c) provide baseline data and assurances of maintenance of effort for K-12 and higher education from 2008-09 through 2010-11 at the 2005-06 levels; (d) describe how the state intends to use the SFSF funding; and (e) agree to submit annual reports on such topics as the use and distribution of funds, the number of jobs saved or created and the tax increases averted by the funds, and the state's progress in advancing education reform.

4. The remaining funding will be distributed in the second phase. The Department of Education has indicated that the application for the second phase will involve identification of measures that will be used by states to demonstrate progress relative to the four educational reform assurances identified in the first phase, state plans for providing data, and the criteria by which the state plans will be evaluated.

5. Using the definition of state support as it existed under two-thirds funding and excluding the federal funding used for general school aids from the calculation, state support of K-12 education based on the other funding in the bill would be an estimated 62.7% in 2008-09, 61.4% in 2009-10, and 60.3% in 2010-11. Thus, federal funding for general school aids supports 3.0% of partial school revenues in 2008-09, 2.8% in 2009-10, and 2.0% in 2010-11 under the bill.

6. Federal aid under the SFSF would end after 2010-11. In that year, \$221 million in federal funding would be used for equalization aid. In a separate AB 75 provision, the Secretary of the Department of Administration, in preparing the 2011-13 biennial budget bill, would be required to assume that the base level of funding in the state GPR appropriation for general school aids for

the 2011-13 biennium is the sum of that appropriation and the federal appropriation for general aid in the 2010-11 fiscal year. This creates a \$442 million biennial commitment related to general aid funding for the 2011-13 biennium, which is included in the \$1.53 billion estimate of the out-year commitment under AB 75 prepared by this office.

7. Under the ARRA, any funding from the education stabilization fund that remains after the state has restored state support for K-12 and higher education to the required levels must be awarded to school districts as subgrants based on the districts' relative shares of funding under the federal Title I program. The bill contains language to incorporate into state equalization aid payments any federal funding from the SFSF that would be required to be distributed as subgrants based on districts' relative shares of funding under the federal Title I program.

8. DOA staff indicate that the provisions related to funding distributed as Title I subgrants was included in the bill based on the most current version of the federal stimulus legislation that was available at the time the administration was preparing the state budget bill. However, based on the final language and funding in the federal act and the general aid funding level in the bill, the administration indicates that these provisions would not need to be utilized. Under AB 75, all of Wisconsin's education stabilization fund allocation would be used to provide general aid at the level required by the ARRA. The Committee could thus modify the Governor's recommendation by deleting the language in the bill related to distributing funding as Title I subgrants (Alternative A2).

### **Additional State General Aid Funding**

9. To meet the federal ARRA requirements, the state needs to maintain general school aids funding at the 2008-09 level. Under the bill, an increase of \$21.9 million over the 2008-09 base level funding is provided. The Committee could, instead, choose to level fund general aids through the 2009-11 biennium at the levels required under the ARRA and reduce state GPR funding for general aid under the bill by \$21.9 million (Alternative B2). Given the relatively small magnitude of the increase, the Committee could deem it more appropriate to use the funding for other purposes or to increase the general fund balance.

10. The additional funding would, however, reduce property taxes in 2010-11. If the Committee were to reduce general aid funding by \$21.9 million in 2010-11, school boards would have the authority under revenue limits to levy that amount on a statewide basis.

11. The level of general school aids funding provided also affects payments under the Milwaukee parental choice program and the Milwaukee and Racine charter school program. If the Committee chooses to provide a different funding level for general school aids than the Governor, the payments and aid reductions for these two programs would need to be adjusted as well.

### **Revenue Limit Per Pupil Adjustment**

12. Since the repeal of the two-thirds funding commitment in 2003 Act 33, effective beginning in 2003-04, the state has generally provided smaller increases in school aid, typically resulting in larger increases in the gross school levy than the increases during the time of the two-

thirds commitment. Under the bill, revenue limits would be maintained with certain modifications and general school aids funding would basically be level-funded. This trend of relatively large increases in the gross school levy would likely be continued under the bill, with estimated growth in the gross school levy of 6.0% in 2009-10 and 6.4% in 2010-11.

13. Given state fiscal constraints, it could be viewed as appropriate to make some reduction in the resource base of school districts to reduce the allowable levy under revenue limits. School boards would have to further prioritize their operating budgets to maintain that programming which is most important to the stakeholders in the districts. Districts would still have the option to pursue additional funding through a referendum. This would ensure that a majority of the voters in the district approve of the additional expenditures.

14. Table 2 shows three options for reducing the per pupil adjustment under revenue limits and the estimated reduction in district resources from the local levy that would result from each option. (The figures shown include the effect of the low revenue ceiling provision under the bill which would mitigate the reduction.)

**TABLE 2**

**Alternatives for Per Pupil Adjustments with General Aid Funding in the Bill  
(Funding in Millions)**

| <u>Per Pupil Adjustments<br/>in 2009-10 and 2010-11</u> | <u>Estimated Gross School Levy</u> |                | <u>Change to AB 75 in District<br/>Resources from the Levy</u> |                |
|---|------------------------------------|----------------|--|----------------|
|   | <u>2009-10</u>                     | <u>2010-11</u> | <u>2009-10</u>   | <u>2010-11</u> |
| \$275/\$279 (AB 75)                                     | \$4,537                            | \$4,829        |  |                |
| \$225/\$225 (Alt. C1a)                                  | 4,508                              | 4,771          | -\$29  | -\$58          |
| \$175/\$175 (Alt. C1b)                                  | 4,481                              | 4,722          | -56  | -107           |
| \$125/\$125 (Alt. C1c)                                  | 4,457                              | 4,678          | -80  | -151           |

15. As an alternative, if the per pupil adjustment would be reduced, the Committee could reduce funding for general school aids without increasing property taxes compared to the bill. As an example, if the per pupil adjustment would be reduced to \$175 per year, base funding for general school aids could be reduced by 1% annually (-\$47,995,000 annually) without increasing the estimated statewide school levy above the AB 75 level (Alternative C2).

16. If the Committee reduced the per pupil adjustment in the 2009-11 biennium, the question of how to treat the indexing provisions of the adjustment for 2011-12 would need to be considered. Under current law, the per pupil adjustment is indexed for inflation each year. The Committee could choose to specify that the adjustment in 2011-12 be set at the level it would have been equal to had the current law indexing provisions remained in effect (Alternative C3a). The Committee could also choose to resume the inflation indexing in 2011-12 starting from a lower 2010-11 adjustment (Alternative C3b).

17. During public hearings by Joint Finance on recent budget bills and by standing

committees and various school finance task forces on K-12 funding proposals, school district officials have testified on the effects of revenue limits on school district operations. This testimony has generally indicated that revenue limits are having an adverse effect on the ability of districts to maintain ongoing educational programs and to respond to fluctuations in expenditures that are outside of a district's control. Reductions in the overall resource base for school districts from the local levy would likely exacerbate these difficulties.

**ALTERNATIVES**

**A. Federal Offset of State Equalization Aid Funding**

1. Approve the Governor's recommendation to: (a) provide \$291,000,000 FED in 2008-09, \$277,000,000 FED in 2009-10, and \$221,000,000 FED in 2010-11 in a new appropriation for all federal monies received from the ARRA that are distributed to districts as equalization aid or as subgrants based on districts' relative shares of funding under the federal Title I program; (b) require DPI to lapse \$291,000,000 GPR in 2008-09 from the general school aids appropriation to the general fund related to the June, 2009, equalization aid payments; and (c) delete \$277,000,000 GPR in 2009-10 and \$221,000,000 GPR in 2010-11 for general school aids.

2. Modify the Governor's recommendation by deleting language in the bill to incorporate into state equalization aid payments any federal funding that would be required to be distributed as subgrants based on districts' relative shares of funding under the federal Title I program.

3. Delete provision.

| <b>ALT A3</b> | <b>Change to Bill<br/>Funding</b> |
|---------------|-----------------------------------|
| GPR           | \$489,000,000                     |
| GPR-Lapse     | - 291,000,000                     |
| FED           | - 789,000,000                     |

**B. Additional State General Aid Funding**

1. Approve the Governor's recommendation to provide \$21,945,700 GPR in general school aids in 2010-11.

2. Delete provision.

| <b>ALT B2</b> | <b>Change to Bill<br/>Funding</b> |
|---------------|-----------------------------------|
| GPR           | - \$21,945,700                    |

**C. Revenue Limit Per Pupil Adjustment and Base State General Aid Funding**

1. Set the per pupil adjustment under revenue limits in 2009-10 and 2010-11 at one of the following amounts:

- a. \$225 per pupil
- b. \$175 per pupil
- c. \$125 per pupil

2. In addition to any of the alternatives under C1, reduce funding for general school aids by \$47,995,000 GPR annually (1%).

|               |                       |
|---------------|-----------------------|
| <b>ALT C2</b> | <b>Change to Bill</b> |
|               | Funding               |
| GPR           | - \$95,990,000        |

3. In addition to any of the alternatives under C1, specify either:

a. that the per pupil adjustment in 2011-12 would be set equal to the amount that it would have been had the current law indexing provisions applied in the 2009-11 biennium; or

b. that the current law indexing provisions resume in 2011-12 based on the lower 2010-11 per pupil adjustment amount.

4. Maintain current law.

Prepared by: Russ Kava