



## 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 #622

### Low Revenue Ceiling (DPI -- General School Aids and Revenue Limits)

[LFB 2009-11 Budget Summary: Page 521 , #7]

---

#### CURRENT LAW

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. Under revenue limits, three-year rolling averages of membership are used to calculate base year and current year revenues per pupil. 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.

In 2008-09, any school district with a base revenue per pupil under revenue limits that is less than the low revenue ceiling of \$9,000 per pupil is allowed to increase its per pupil revenues up to the \$9,000 per pupil ceiling. Under this provision, base revenue per pupil is determined by: (a) calculating the sum of the district's prior year general school aids, computer aid, and property tax levy; (b) dividing the sum under (a) by the average of the district's membership for the three prior school years; and (c) adding the allowable per pupil revenue limit increase (\$274.68 in 2008-09) to the result. If a district has resident pupils who were solely enrolled in a county children with disabilities education board (CCDEB) program, costs and pupils related to that program are factored into the district's base revenue per pupil calculation. Under current law, the low revenue ceiling will remain at \$9,000 per pupil in subsequent years.

## GOVERNOR

Increase the low revenue ceiling to \$9,400 per pupil in 2009-10 and \$9,800 per pupil in 2010-11 and thereafter.

## DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. The low revenue ceiling was enacted in the 1995-97 biennial budget act. That act set the low revenue ceiling at \$5,300 per pupil in 1995-96 and \$5,600 per pupil in 1996-97. In each subsequent biennial budget act, the low revenue ceiling has been increased, typically by \$200 or \$300 per pupil each year. The 2003-05 budget act, however, increased the low revenue ceiling by \$500 per pupil in 2003-04 and \$400 per pupil in 2004-05.

2. Table 1 shows the low revenue ceiling amount for each year since 1995-96. The table also shows the statewide eligible revenue limit increase generated in each year by the low revenue ceiling, the number of districts that were eligible for the adjustment, and the number of districts that underlevied by an amount greater than the amount generated by the low revenue adjustment (in other words, the number of districts that did not utilize any portion of the low revenue adjustment in the given year). The Norris School District, a residential school that is in a district consisting almost entirely of school property and that gets most of its support from state and federal aid, is excluded from consideration in this paper.

**TABLE 1**

### Low Revenue Ceiling History

<u>Year</u>	<u>Low Revenue Ceiling</u>	<u>Total Eligible Increase Generated by Low Revenue Adjustment</u>	<u>Number of Districts Eligible for Low Revenue Adjustment</u>	<u>Number of Districts with Underlevy Greater than Low Revenue Adjustment</u>
1995-96	\$5,300	\$7,037,000	29	5
1996-97	5,600	7,675,800	33	3
1997-98	5,900	5,865,100	41	6
1998-99	6,100	1,767,000	16	4
1999-00	6,300	1,961,900	5	5
2000-01	6,500	600,500	6	4
2001-02	6,700	667,800	4	2
2002-03	6,900	508,100	2	1
2003-04	7,400	7,261,800	52	5
2004-05	7,800	18,431,900	87	5
2005-06	8,100	7,343,300	85	9
2006-07	8,400	8,202,600	94	7
2007-08	8,700	3,816,600	86	8
2008-09	9,000	3,391,600	75	3

3. The low revenue adjustment for districts with per pupil revenues below the ceiling is

intended to decrease the disparity between low-revenue and high-revenue districts in the state by providing additional revenue limit authority to low-revenue districts. Table 2 shows the base revenue per pupil for the highest and lowest district for 1994-95, the year prior to enactment of the low revenue ceiling, and for 2007-08. These base revenue figures were the starting points for the 1995-96 and 2008-09 revenue limit calculations. As shown in the table, the base revenue per pupil for the lowest district increased by 99%, while for the highest it increased only 30%. In 1994-95, the highest district had per pupil revenue 2.7 times that of the lowest district. By 2007-08, that ratio had decreased to 1.8. To look beyond the districts at the extremes, Table 2 also shows the base revenue per pupil for the districts at the 95<sup>th</sup> and 5<sup>th</sup> percentiles for the two years. The disparity in base revenue per pupil between these districts also declined during the time period.

**TABLE 2**

**Base Revenue per Pupil for Selected Districts**

	<u>1994-95 Base For 1995-96 Limit</u>	<u>2007-08 Base For 2008-09 Limit</u>	<u>Percent Change</u>
Highest	\$11,584	\$15,074	30.1%
Lowest	\$4,287	\$8,528	98.9%
Ratio, Highest to Lowest	2.70	1.77	
95th Percentile	\$7,799	\$11,099	42.3%
5th Percentile	\$5,038	\$8,700	72.7%
Ratio, 95th to 5th Percentile	1.55	1.28	

4. Under current law, it is estimated that one district would fall below the current law \$9,000 per pupil low revenue ceiling in 2009-10 and that no districts would fall below it in 2010-11. Using 2008-09 base revenues and enrollment and assuming no other changes to enrollment or current law revenue limits, an estimated 113 districts would be eligible for an adjustment under a low revenue ceiling of \$9,400 per pupil in 2009-10 and an estimated 155 districts would be eligible for an adjustment under a low revenue ceiling of \$9,800 per pupil in 2010-11. If all districts fully utilized the additional authority under the proposed levels for the low revenue ceiling, they would collectively raise additional estimated revenue of \$20.3 million in 2009-10 and an additional \$27.9 million in 2010-11.

5. If used by school districts, the additional revenue limit authority would be funded by a combination of general school aids, computer aid, and property taxes. Under AB 75, an additional \$21.9 million in 2010-11 in additional general school aids funding would be provided.

6. The \$400 per year increases to the low revenue ceiling under the bill are higher than the \$300 per year increases in the low revenue ceiling in each of the last four years. It could be argued that the increases in the low revenue ceiling proposed by the Governor would better maintain the value of the low revenue ceiling in relation to the per pupil adjustment. As the per pupil adjustment, which is estimated at \$275 in 2009-10 and \$279 in 2010-11, approaches the recent \$300 per pupil increases in the low revenue ceiling, the additional amount allowed under the low

revenue ceiling decreases.

7. As shown in Table 1, in those years that the low revenue ceiling applied to more than a handful of districts, most districts took advantage of at least some of the additional revenue limit authority provided. A fairly constant number of districts have not utilized the low revenue adjustment since its enactment. Thus, it could be argued that, for most districts with lower revenues, a low revenue ceiling that provides a meaningful adjustment could be effective in reducing revenue disparities among districts.

8. The projected number of eligible districts and estimated amount of revenue limit authority that would be generated under the low revenue ceiling in the bill would be the largest in the history of the low revenue adjustment. To keep the scope of the adjustment roughly the same as it has been in recent biennia, the Committee could instead provide a \$325 increase to the per pupil in each year of the 2009-11 biennium (Alternative 2).

9. Under this alternative, an estimated 91 districts would be eligible for an adjustment under a low revenue ceiling of \$9,325 per pupil in 2009-10 and an estimated 107 districts would be eligible under a low revenue ceiling of \$9,650 in 2010-11. If all districts fully utilized the additional authority under these amounts for the low revenue ceiling, they would collectively raise additional estimated revenue of \$7.0 million in 2009-10 and an additional \$7.9 million in 2010-11.

10. Those opposed to increasing the low revenue adjustment argue that while it provides additional financial resources to districts with the lowest per pupil revenues, it could also have an impact on the local levy in those districts that utilize the additional authority. Furthermore, they contend that even without the low revenue adjustment, current law already allows school districts to exceed the limit through referendum and that using this option would ensure local support of the district's decision to spend or tax at higher levels.

11. In addition, low-revenue districts already benefit in percentage terms from the flat dollar adjustment per pupil under revenue limits. The \$274.68 per pupil adjustment in 2008-09, for example, generates allowable per pupil growth of approximately 3.2% above base revenues for the 5% of districts with the lowest base revenue per pupil. For the 5% of districts with the highest base revenue per pupil, the same dollar increase per pupil generates increases of 1.8% to 2.5% above base revenues. One can argue that this aspect of revenue limits will gradually decrease the revenue disparities between districts in percentage terms over time.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to increase the low revenue ceiling to \$9,400 per pupil in 2009-10 and \$9,800 per pupil in 2010-11 and thereafter.

2. Modify the Governor's recommendation to increase the low revenue ceiling to \$9,325 per pupil in 2009-10 and \$9,650 per pupil in 2010-11 and thereafter.

3. Delete provision.

Prepared by: Russ Kava