



Legislative Fiscal Bureau

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May 20, 1999

Joint Committee on Finance

Paper #762

Negative Tertiary Equalization Aid (DPI -- General School Aid)

CURRENT LAW

Equalization Aid Formula. The current three-tiered cost sharing formula was enacted in 1995 Act 27 and first applied to equalization aid paid in 1996-97. The equalization aid formula is calculated using school district membership, shared costs and equalized valuation data from the prior school year.

Membership is the sum of: (1) the average of the number of pupils enrolled on the third Friday in September and the second Friday in January of the previous school year; and (2) the number of full-time equivalent pupils enrolled in an approved summer school program during the summer prior to the counted year. Special provisions apply for determining membership for pupils enrolled in kindergarten and preschool programs. Only pupils who are residents of a school district are counted in that district's membership.

Shared costs are school district expenditures that are aidable through the equalization aid formula. Shared cost is determined by subtracting certain deductible receipts from the gross cost of a district's general fund for operating costs and its debt service fund for expenditures for long-term debt retirement. The major deductions are: (1) state categorical aid; (2) federal aid; and (3) local, non-property tax receipts such as ticket sales, student fees and interest earnings. These items are deducted because they represent costs that have already been offset by revenue sources other than the property tax or state general aids.

Equalized valuation is the full market value of taxable property in the school district as determined by the Department of Revenue as of January 1 of each year. Equalized valuations are used not only to calculate equalization aid but also to apportion the property tax levy, including the school levy, to individual municipalities.

Guaranteed valuations are the amount of property tax base support that the state guarantees behind each pupil. There are three guaranteed valuations used in the equalization formula that are applied to three different cost levels.

Primary Guarantee. The first tier is for shared costs up to the primary cost ceiling of \$1,000 per member. State aid on these primary shared costs is calculated using a statutory guaranteed valuation of \$2,000,000 per member, and is based on a comparison of the school district's equalized valuation per member to the \$2,000,000. State aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district receives at least the primary aid amount; primary aid cannot be reduced by negative aid generated at the secondary or tertiary aid levels.

Secondary Guarantee. The second tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$6,285 per member in 1998-99. The secondary cost ceiling is adjusted for inflation annually. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is allowed to float to a level that fully distributes the available amount of funding for equalization aids. In 1998-99, the secondary guaranteed valuation is \$676,977.

Tertiary Guarantee. The third tier is for shared costs that exceed the secondary cost ceiling of \$6,285 per member. State aid on tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$263,246 in 1998-99. If a school district's tertiary aid is negative, this amount is deducted from its secondary aid. As noted above, if the sum of a district's secondary and tertiary aid is negative, this amount is not deducted from its primary aid amount. The tertiary guarantee is tied to the statewide property tax base per member to reflect statewide changes in property value and enrollment. It is set at an amount lower than the secondary guarantee so that the state's share will be lower on costs above the secondary cost ceiling.

GOVERNOR

Maintain the current three-tiered equalization aid formula and two-thirds funding of partial school revenues.

DISCUSSION POINTS

1. School districts can be placed in one of five equalization aid categories depending on their per member costs and value. Attachment 1 outlines these five categories and provides a table that summarizes 1998-99 data, based on October 15 estimates, regarding the number of school districts in each particular category of equalization aid.

2. The equalization aid formula operates under the principle of equal tax rate for equal per pupil costs, or tax base equalization. In pure form, this means that a school district's property

tax rate does not depend on the property tax base of the district, but rather depends on the level of costs. Simply stated, there is an inverse relationship between equalization aid and property valuations; those districts with low, per pupil property valuations receive a larger share of their costs through the equalization formula than districts with high, per pupil property valuations. The purpose of this policy is to minimize the differences among school districts' abilities to raise revenue for educational programs.

3. To this end, the tertiary level of the equalization formula is intended to serve two purposes. First, it serves as a disincentive for higher spending levels by causing districts to receive aid at much lower levels for costs incurred above the secondary cost ceiling, or lose aid attributable to those costs if a district's per member equalized value is greater than the tertiary guarantee. Second, it attempts to narrow the per pupil spending disparities among school districts by redistributing aid to districts that spend at lower levels.

4. In 1998-99, approximately \$98.5 million in equalization aid is redistributed from high-cost, high-value school districts to low-cost, low-value districts due to negative tertiary aid. Of this total, \$21.6 million is due to the 18 primary aid only districts whose negative tertiary aid more than offsets their positive secondary aid, and \$76.9 million is as a result of the 104 districts whose positive secondary aid is reduced due to their negative tertiary aid.

Effect of Negative Tertiary Aid

5. A district with tertiary costs whose equalized value per member is between the secondary and tertiary guarantees (\$676,977 and \$263,246, respectively, in 1998-99) would generate negative tertiary aid under the equalization aid formula. This negative tertiary aid would reduce the district's secondary aid, causing the district to lose state aid due to costs above the secondary cost ceiling. If such a district reduced its shared costs, its state aid would increase because it would generate less negative aid.

6. In 1998-99, a total of 104 school districts generate negative tertiary aid that offsets a portion of their positive secondary aid. For these school districts, lower shared costs would reduce negative tertiary aid, which would increase the positive secondary aid that the districts receive. In addition, 23 other districts that currently have per member costs that are less than \$6,285, could be subject to negative tertiary aid, to the extent that any added shared costs would increase their per member costs above \$6,285. Finally, there are 18 districts with negative tertiary aid that more than offsets their positive secondary aid, and therefore, are primary aid only districts. Some of these 18 school districts could benefit from lower shared costs, if tertiary costs could be reduced to such a degree that their positive secondary aid exceeded their negative tertiary aid.

7. Attachment 2 shows an example of a hypothetical school district whose positive secondary aid exceeds its negative tertiary aid. The district has shared costs of \$7,000 per member, which is above the secondary cost ceiling of \$6,285 per member; therefore, the district's equalized value is compared to the primary, secondary and tertiary guaranteed valuations in calculating its

equalization aid. Since the district's valuation per member (\$350,000) is between the secondary and tertiary guarantees, the district receives positive aid at the primary and secondary levels and negative aid at the tertiary level.

As presented in Attachment 2, for 1998-99, the district receives aid for 82.5% of its costs at the primary level, due to the \$2,000,000 equalized value per member used in calculating primary aid. At the secondary level, the district receives aid for 48.3% of its secondary shared costs, based on a comparison of its valuation per member with the secondary guarantee. Finally, at the tertiary level, the district receives aid of -33.0% of its tertiary shared costs, based on a comparison of its valuation per member with the tertiary guarantee. The district will receive \$825,000 for its primary costs, \$2,552,632 for its secondary costs and -\$235,632 for its tertiary costs, for a total of \$3,142,000 in equalization aid in 1998-99, which represents 44.9% of its shared costs.

8. Attachment 3 illustrates the isolated effect of reducing the shared costs of the hypothetical district discussed above by \$400,000, for total shared costs of \$6.6 million rather than \$7.0 million. The district's tertiary costs would be reduced from \$715,000 to \$315,000. Under this example, the district's primary and secondary aid would remain unchanged; however, the district's tertiary aid would increase from -\$235,632 to -\$103,810. For every \$1,000 of tertiary costs that this district could subtract from its shared costs, it would receive an additional \$330 in equalization aid. The district's total equalization aid under this example would increase by \$131,822 to \$3,273,822, or 49.6% of its shared costs.

Optional Deduction of Certain Shared Costs

9. Many school districts affected by negative tertiary aid believe that the state should allow for an optional deduction of certain costs from the calculation of shared costs in order for these school districts to be able to fund additional projects without a state aid penalty. In January 1999, the Wisconsin Association of School Boards (WASB) Delegate Assembly adopted a resolution that would allow school districts the option of including or excluding from the calculation of shared costs any costs associated with capital facilities construction or improvement.

10. Although only 122 of the state's 426 school districts are subject to negative tertiary aid, a majority of the school board members representing school districts at the convention voted for the resolution. Proponents of the resolution argue that the negative tertiary aid feature of the equalization aid formula makes it difficult to finance needed capital improvements for school districts subject to negative tertiary aid. For this type of school district, it may be difficult to secure voter approval of a borrowing referendum when voters learn that the property tax levy will have to increase in following years, for example, by \$1.25 or \$1.50 for every \$1.00 of debt service, because of the related reduction in state aid. Under the resolution, a school district could opt to exclude these costs from shared costs, so that there would not be any aid reduction and the property tax levy would only have to increase by the amount of the debt service costs of the project.

11. School districts subject to negative tertiary aid argue that this feature of the state aid formula makes it more difficult for them to pass referenda. Attachment 4 outlines the success

rate of school district referenda offered from 1996 through 1998. The referenda data in Attachment 4 covers 1996 through 1998; however, the list of 122 school districts subject to negative tertiary aid under the state's equalization aid formula is based on 1998-99 school aid factors only. While it is unlikely that the equalization aid status of a given school district has changed drastically over the past three years, there may be some districts that are only just subject to negative tertiary aid in 1998-99 and may or may not have been subject to negative tertiary aid in previous years. Of the 122 school districts subject to negative tertiary aid in 1998-99, 43 districts did not offer a referendum at any time during 1996 through 1998.

Based on the data available, the success rate of referenda offered by school districts subject to negative tertiary aid in 1998-99 (53%) versus the success rate of referenda offered by all other school districts in the state (56%) does not differ significantly. When calculated by the dollar amounts approved, the success rate is the same (52%). Because information on the reasons a referendum failed to receive the support of the majority of voters in a given school district is not available, it is difficult to determine whether or not the state equalization aid status of a school district represented a major factor in the success or failure of school district referenda.

12. Opponents of the resolution argue that the negative tertiary aid feature of the equalization aid formula is functioning as intended under current law. By reducing aid for higher-cost, higher-value districts, the aid formula acts as a disincentive to further cost increases that could widen the spending disparity between school districts. In addition, the aid lost by these higher-cost, higher-value districts is redistributed under the formula to lower-cost, lower-value districts, which could assist those districts in increasing their spending or reducing their property tax levies.

13. It is possible to calculate an example of the potential impact of an alternative that would allow school districts that generate negative tertiary aid to exclude all debt service costs from tertiary costs. Using information on 1997-98 shared costs that was used in calculating equalization aid for 1998-99, an estimate can be made of how much aid would have been redistributed if school districts could have excluded the lesser of their net debt service costs or their tertiary costs. Based on this information, if this alternative had been in effect in 1998-99, it is estimated that \$20.7 million of general school aid would have been redistributed between school districts. A total of 62 higher-cost, higher-value districts would have received additional aid and 327 lower-cost, lower-value districts would have lost aid. The aid received by the remaining 37 school districts would have remained unchanged from current law.

14. The amount of aid that would be redistributed would be much less if the proposal would be limited to debt service on bonds issued pursuant to referenda approved after the effective date of the bill. However, there is no way to estimate how much aid would be redistributed or how many districts would gain or lose aid because any aid redistribution would depend on which referenda passed and how many bonds were issued that would be affected by this more limited alternative.

Increase Secondary Cost Ceiling

15. An alternative that may have fewer disqualifying effects than allowing an optional deduction for certain shared costs would be to increase the secondary cost ceiling to a level equivalent to the total statewide shared costs divided by the total statewide membership. This would increase the amount of shared costs that would be aided at the secondary level and reduce the amount of shared costs that would be aided at the tertiary level of the equalization aid formula. Because districts receive a greater share of their costs from the state at the secondary than the tertiary aid level, many districts could be assisted by an increase in the secondary cost ceiling.

16. In 1998-99, the statewide shared cost per member is \$6,763 and the secondary cost ceiling is \$6,285. In 1998-99, 84 school districts have shared costs at or below the secondary cost ceiling and 196 districts have shared costs at or below the statewide shared cost per member of \$6,763. It could be argued that all costs at, or below, the statewide shared cost per member should be aided at the more generous secondary level, and only if costs exceed the statewide per pupil amount should districts be penalized with a lower aid rate or negative tertiary aid. While under current law the secondary cost ceiling is adjusted annually for inflation, it may be more consistent to tie the secondary cost ceiling to the actual statewide costs per member, rather than to an inflationary increase from a base amount that is below the statewide per pupil amount.

17. On the other hand, increasing the secondary cost ceiling would hamper the cost controlling effects of the tertiary aid level and would divert state aid from school districts with per pupil costs below the current secondary cost ceiling to districts with higher costs. Arguably, districts, such as those subject to negative tertiary aid, should be encouraged to decrease their costs to a level closer to the current secondary cost ceiling, rather than adjusting the formula in such a way that would benefit higher-cost school districts.

18. It is possible to calculate an example of the potential impact of an alternative that would equate the secondary cost ceiling to the statewide shared cost per member. Based on data utilized to determine 1998-99 general aids, an estimate can be made of how much aid would have been redistributed if the secondary cost ceiling had been increased to \$6,763. If this alternative had been in effect in 1998-99, an estimated \$42.5 million would have been redistributed among school districts. A total of 240 school districts would have gained aid, 147 would have lost aid and 39 would have been unaffected by this modification.

Generally, aid would have been redirected from lower-cost, lower-value districts to higher-cost, higher-value districts. However, high-cost, low-value districts also would have gained state aid. Additionally, in conjunction with an increase in the secondary cost ceiling, the secondary guarantee would have floated from the current \$676,977 to \$625,980 which, in a comparison of the district equalized value per member to the secondary guarantee, would aid districts at a lower rate on the secondary level.

Maintain Current Law

19. Finally, it may be beneficial to the tax base equalization goals of the school aids formula to maintain the current practice of including all debt service costs in the definition of shared costs and retain the secondary cost ceiling at its current level with the annual adjustment for inflation. Allowing a deduction from shared costs would benefit the school districts in the state that have a greater advantage in raising local revenue and would divert state aid from the school districts in the state with the least ability to raise revenues to meet educational costs. While increasing the secondary cost ceiling would not include as many disequalizing outcomes, it may be desirable to maintain the cost-controlling incentives of a lower-than-average-costs secondary cost ceiling.

ALTERNATIVES

1. Beginning with equalization aid paid in the 2000-01 school year, permit school districts to deduct from the calculation of shared costs, the lesser of total debt service costs from school building referenda approved by voters after the effective date of the budget bill, or tertiary costs.

2. Beginning with equalization aid paid in the 1999-00 school year, equate the secondary cost ceiling of the equalization aid formula with the prior year statewide shared costs divided by the prior year statewide membership. Delete the requirement that the secondary cost ceiling be adjusted annually for inflation.

3. Maintain current law.

MO# Alt. 1

BURKE	Y	<input checked="" type="radio"/> N	A
DECKER	Y	<input checked="" type="radio"/> N	A
JAUCH	Y	<input checked="" type="radio"/> N	A
MOORE	Y	<input checked="" type="radio"/> N	A
SHIBILSKI	Y	<input checked="" type="radio"/> N	A
PLACHE	Y	<input checked="" type="radio"/> N	A
1 COWLES	<input checked="" type="radio"/> Y	<input checked="" type="radio"/> N	A
PANZER	Y	<input checked="" type="radio"/> N	A
2 GARD	Y	<input checked="" type="radio"/> N	A
PORTER	Y	<input checked="" type="radio"/> N	A
KAUFERT	Y	<input checked="" type="radio"/> N	A
ALBERS	Y	<input checked="" type="radio"/> N	A
DUFF	Y	<input checked="" type="radio"/> N	A
WARD	Y	<input checked="" type="radio"/> N	A
HUBER	Y	<input checked="" type="radio"/> N	A
RILEY	Y	<input checked="" type="radio"/> N	A

Prepared by: Ruth Hardy

AYE 1 NO 15 ABS 0

ATTACHMENT 1

SCHOOL DISTRICT CHARACTERISTICS ACROSS THE STATE

1. *Positive Aid at the Primary and Secondary Levels.* These districts have primary and secondary costs only and an equalized value per member that is below the secondary guarantee. Districts in this category will receive positive aid at the primary and secondary levels.

2. *Positive Aid at the Primary, Secondary and Tertiary Levels.* These districts have primary, secondary and tertiary costs and an equalized value per member that is below the secondary and tertiary guarantees. Districts in this category will receive positive aid at the primary, secondary and tertiary levels.

3. *Positive Primary and Positive Secondary Aid Exceeding Negative Tertiary Aid.* These districts have primary, secondary and tertiary costs and an equalized value per member that is between the secondary guarantee (\$676,977) and the tertiary guarantee (\$263,246). Districts in this category will receive positive aid at the primary and secondary levels and negative aid at the tertiary level. The positive secondary aid exceeds the negative tertiary aid, so that these districts receive aid that exceeds their primary aid amount.

4. *Primary Aid Only.* Fifteen of these districts have an equalized value per member that is between the primary guarantee and the secondary guarantee, in which case they will receive positive aid at the primary level and negative aid at the secondary and tertiary levels. Eighteen other districts in this category have an equalized value between the secondary guarantee and the tertiary guarantee, but their negative tertiary aid exceeds their positive secondary aid. Under the primary aid hold harmless, all 33 of these districts will receive their primary aid amount.

5. *No Equalization Aid.* There is one district in this category. The Gibraltar School District has an equalized value per member that exceeds the primary aid guarantee, so that it generates negative aid at the primary, secondary and tertiary aid levels. As a result, it does not receive any equalization aid, but does qualify for special adjustment aid. Special adjustment aid is additional general school aid to districts to either cushion the effect of reductions in general school aid from one year to the next, commonly referred to as a "hold harmless" payment, or as an incentive for school district consolidation. A district is guaranteed a specific percentage of its prior year payment of general school aids, including equalization, integration and special adjustment aid, thus limiting a decline in general school aids.

The following table summarizes estimated 1998-99 data regarding the number of school districts allocated into these particular categories of equalization aid.

PUBLIC INSTRUCTION

Deduction from Shared Costs for 50% Debt Service or Tertiary Costs
[LFB Paper #762]

Motion:

Move to provide that beginning with equalization aid paid in the 2000-01 school year, permit school districts to deduct from the calculation of shared costs, the lesser of 50% of total debt service costs from school building referenda approved by voters after the effective date of the budget bill, or tertiary costs.

Note:

Under current law, shared costs are school district expenditures that are aidable through the equalization aid formula. Shared cost is determined by subtracting certain deductible receipts from the gross cost of a district's general fund for operating costs and its debt service fund for expenditures for long-term debt retirement. The major deductions are: (1) state categorical aid; (2) federal aid; and (3) local, non-property tax receipts such as ticket sales, student fees and interest earnings. These items are deducted because they represent costs that have already been offset by revenue sources other than the property tax or state general aids.

The third tier under the equalization aid formula is for shared costs that exceed the secondary cost ceiling of \$6,285 per member. State aid on these tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$263,246 in 1998-99. If a school district's tertiary aid is a negative number, this amount is deducted from its secondary aid. If the sum of a district's secondary and tertiary aid is a negative number, this amount is not deducted from its primary aid amount. The tertiary guarantee is tied to the average property tax base per member to reflect statewide changes in property value and enrollment. It is set at an amount lower than the secondary guarantee so that the state's share of the costs will be lower on costs above the secondary cost ceiling.

This motion would permit school districts to deduct from the calculation of shared costs, the lesser of 50% of total debt service costs from school building referenda approved by voters after the effective date of the budget bill, or tertiary costs, beginning with aid paid in the 1999-00 school year. This would reduce negative tertiary aid and redistribute equalization aid among school districts, generally from lower-value, lower-cost school districts to higher-value, higher-cost school districts.

MO# _____

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 2 NO 14 ABS _____

School Districts by Category of Equalization Aid in 1998-99

<u>Category</u>	<u>Number of Districts</u>	<u>Percent of Districts</u>	<u>Membership</u>	<u>Percent of Membership</u>
Positive Primary and Secondary	84	19.72%	251,700	29.01%
Positive Primary, Secondary and Tertiary	204	47.89	308,895	35.61
Positive Primary and Positive Secondary Exceeds Negative Tertiary	104	24.41	271,289	31.27
Primary Aid Only	33	7.75	34,927	4.03
No Equalization Aid	<u>1</u>	<u>0.23</u>	<u>736</u>	<u>0.08</u>
Total	426	100.00%	867,547	100.00%

ATTACHMENT 2

1998-99 Equalization Aid Calculation for "Positive Secondary Exceeds Negative Tertiary"

DISTRICT FACTORS

	<u>Total</u>	<u>Per Pupil</u>
Membership	1,000	N.A.
Value	\$350,000,000	\$350,000
Total Shared Cost	\$7,000,000	\$7,000
Primary Costs	\$1,000,000	\$1,000
Secondary Costs	\$5,285,000	\$5,285
Tertiary Costs	\$715,000	\$715

COMPUTATION

$$\begin{aligned}
 \text{Primary Aid} &= [1 - \frac{350,000}{2,000,000}] \times \$1,000,000 \\
 &= [1 - 0.1750000] \times \$1,000,000 \\
 &= 0.8250000 \times \$1,000,000
 \end{aligned}$$

Primary Aid = \$825,000

$$\begin{aligned}
 \text{Secondary Aid} &= [1 - \frac{350,000}{676,977}] \times \$5,285,000 \\
 &= [1 - 0.51700427] \times \$5,285,000 \\
 &= 0.48299573 \times \$5,285,000
 \end{aligned}$$

Secondary Aid = \$2,552,632

$$\begin{aligned}
 \text{Tertiary Aid} &= [1 - \frac{350,000}{263,246}] \times \$715,000 \\
 &= [1 - 1.32955487] \times \$715,000 \\
 &= -0.32955487 \times \$715,000
 \end{aligned}$$

Tertiary Aid = -\$235,632

SUMMARY TABLE

<u>Tier</u>	<u>Aid Amount</u>	<u>Shared Costs</u>	<u>Aid as % of Costs</u>
Primary	\$825,000	\$1,000,000	82.5%
Secondary	2,552,632	5,285,000	48.3%
Tertiary	<u>-235,632</u>	<u>715,000</u>	-33.0%
Total	\$3,142,000	\$7,000,000	44.9%

ATTACHMENT 3

**1998-99 Equalization Aid Calculation for "Positive Secondary Exceeds Negative Tertiary"
Calculated with Shared Costs Reduced by \$400,000**

DISTRICT FACTORS	<u>Total</u>	<u>Per Pupil</u>
Membership	1,000	N.A.
Value	\$350,000,000	\$350,000
Total Shared Cost	\$6,600,000	\$6,600
Primary Costs	\$1,000,000	\$1,000
Secondary Costs	\$5,285,000	\$5,285
Tertiary Costs	\$315,000	\$315

COMPUTATION

$$\begin{aligned} \text{Primary Aid} &= \left[1 - \frac{350,000}{2,000,000} \right] \times \$1,000,000 \\ &= \left[1 - 0.1750000 \right] \times \$1,000,000 \\ &= 0.8250000 \times \$1,000,000 \end{aligned}$$

Primary Aid = \$825,000

$$\begin{aligned} \text{Secondary Aid} &= \left[1 - \frac{350,000}{676,977} \right] \times \$5,285,000 \\ &= \left[1 - 0.51700427 \right] \times \$5,285,000 \\ &= 0.48299573 \times \$5,285,000 \end{aligned}$$

Secondary Aid = \$2,552,632

$$\begin{aligned} \text{Tertiary Aid} &= \left[1 - \frac{350,000}{263,246} \right] \times \$315,000 \\ &= \left[1 - 1.32955487 \right] \times \$315,000 \\ &= -0.32955487 \times \$315,000 \end{aligned}$$

Tertiary Aid = -\$103,810

SUMMARY TABLE

<u>Tier</u>	<u>Aid Amount</u>	<u>Shared Costs</u>	<u>Aid as % of Costs</u>
Primary	\$825,000	\$1,000,000	82.5%
Secondary	2,552,632	5,285,000	48.3%
Tertiary	<u>-103,810</u>	<u>315,000</u>	-33.0%
Total	\$3,273,822	\$6,600,000	49.6%

ATTACHMENT 4

Referenda Success Rates 1996 through 1998 (\$ in Millions)

	<u>Districts with Negative Tertiary Aid in 1998-99</u>	<u>All Other School Districts</u>
Number of Districts	122	304
Number Referenda Offered	192	462
Number Successful Referenda	102	260
Number Failed Referenda	90	202
Success Rate by Number	53%	56%
Total Dollar Amount Requested	\$1,241.3	\$2,573.6
Total Dollar Amount Approved	641.8	1,343.9
Total Dollar Amount Failed	599.5	1,229.8
Success Rate by Dollar Amount	52%	52%

The above table provides the following information:

(a) The number of school districts subject to negative tertiary aid under the state equalization aid formula in 1998-99. This number includes districts whose negative tertiary aid is less than their positive secondary aid and therefore offsets a portion of their secondary aid, and districts whose negative tertiary aid more than offsets their positive secondary aid and are therefore primary aid only districts;

(b) The number of all other school districts in the state, regardless of their status under the state equalization aid formula in 1998-99;

(c) The total number of referenda offered by the two types of school districts. This total includes multiple referenda offered by individual school districts, and covers both referenda to incur debt for building projects and referenda to permanently or temporarily exceed the school district's revenue limits;

(d) The number of referenda successfully approved by a majority of voters in the school district and the number of referenda that failed to receive approval by a majority of voters in the school district, by the two types of school districts;

(e) The success rate for referenda offered, or the number of successfully approved referenda divided by the total number of referenda offered, by school district type; and

(f) The dollar amounts requested, approved and failed as well as the success rate by dollar amount, by school district type.

(Gov) Agency: DPI -- District Debt Levies and Debt Service Costs

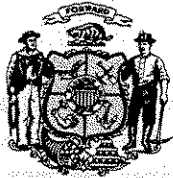
Recommendations:

Paper #763: Go with the gov. Maintain current law (Alternative 3).

Comments: Moves are afoot to limit the amount of debt service for which districts can collect state aid. The fear is that districts are taking advantage of state aid to pass referendums and go on a building binge. But as table 2 on page 5 of paper 764 shows, the success rates of referendums is roughly the same, before and after the state made its 2/3rds commitment.

DPI points out it would be inconsistent to treat debt revenues and costs differently.

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May 20, 1999

Joint Committee on Finance

Paper #763

School District Debt Levies and Debt Service Costs (DPI -- General School Aid and Revenue Limits)

CURRENT LAW

School District Revenues and Two-Thirds Funding. Under 1993 Act 437, the state established a commitment to raise its share of K-12 partial school revenues to 66.7%, thereby significantly reducing the reliance on local property taxes to fund K-12 education. In 1997 Act 27, the funding goal was modified to be two-thirds funding, rather than 66.7%. The two-thirds funding commitment is estimated on a statewide basis; the level of state aid received by an individual district may be higher or lower than two-thirds depending on the district's per member shared costs and equalized value.

The statutes define both the numerator and denominator of the two-thirds state funding calculation. The numerator is the sum of state school aids, composed of 31 separate general and categorical aids appropriations, and the school levy tax credit; general school aids include equalization, integration and special adjustment aids. The denominator, which is called "partial school revenues," is the sum of state school aids and property taxes levied for school districts, including school district debt levies. In 1998-99, the state funding totals \$4,458.7 million, or 66.40% of partial school revenues, including \$3,989.4 million in state aid and \$469.3 million for the school levy tax credit.

Property tax levies for the long-term debt service payments of school districts are included in the partial school revenues that the state will support at an estimated two-thirds funding level. Therefore, the state's funding obligation is influenced by the degree to which school districts are successful in passing borrowing referenda. However, debt service represents a relatively small share, approximately 5.69% in 1998-99, of the total amount of K-12 revenue included in the two-thirds funding calculation.

School District Revenue Limits. Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids and property taxes is restricted. On

October 15 of each year, the Department of Public Instruction (DPI) provides school districts with an estimate of their general school aids for the current year. The difference between a school district's revenue limit and the October 15 general school aids estimate determines the maximum amount of revenue that the district is allowed to raise through the property tax levy.

A school district can exceed the revenue limit by receiving voter approval at a referendum. The school board must approve a resolution supporting inclusion in the school district budget, an amount that exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or non-recurring purpose, or both. If the resolution is approved by a majority of those voting on the question, the school board can exceed the revenue limit by the amount approved. These referenda could approve debt, or recurring or nonrecurring operating costs.

School District Costs and Equalization Aid. The current three-tiered cost sharing formula was enacted in 1995 Act 27 and first applied to equalization aid paid in 1996-97. There are three guaranteed valuations used in the equalization formula that are applied to three different cost levels.

Primary Guarantee. The first tier is for shared costs up to the primary cost ceiling of \$1,000 per member. State aid on these primary shared costs is calculated using a statutory guaranteed valuation of \$2,000,000 per member, and is based on a comparison of the school district's equalized valuation per member to the \$2,000,000. State aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district receives at least the primary aid amount; primary aid cannot be reduced by negative aid generated at the secondary or tertiary aid levels.

Secondary Guarantee. The second tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$6,285 per member in 1998-99. The secondary cost ceiling is adjusted for inflation annually. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is allowed to float to a level that fully distributes the available amount of funding for equalization aids. In 1998-99, the secondary guaranteed valuation is \$676,977.

Tertiary Guarantee. The third tier is for shared costs that exceed the secondary cost ceiling of \$6,285 per member. State aid on these tertiary shared costs is calculated using the statewide equalized valuation per member, which is \$263,246 in 1998-99. If a school district's tertiary aid is a negative number, this amount is deducted from its secondary aid. As noted above, if the sum of a district's secondary and tertiary aid is a negative number, this amount is not deducted from its primary aid amount.

The tertiary guarantee is tied to the statewide property tax base per member to reflect statewide changes in property value and enrollment. It is set at an amount lower than the secondary guarantee so that the state's share will be lower on costs above the secondary cost ceiling. The tertiary guarantee feature of the equalization aid formula is intended to serve two purposes. First, it

serves as a disincentive for higher spending levels by causing districts to receive aid at much lower levels for costs incurred above the ceiling, or lose aid attributable to those costs if a district's per member equalized value is greater than the tertiary guarantee. Second, it attempts to narrow the per pupil spending disparities among school districts by redistributing aid to districts that spend at lower levels.

The equalization aid formula is calculated using school district membership, shared costs and equalized valuations from the prior school year. Shared costs are school district expenditures that are aidable through the equalization formula. Shared costs are determined by subtracting certain deductible receipts from the gross cost of a district's general fund for operating costs and its debt service fund for expenditures for long-term debt retirement. The primary deductions are: (1) state categorical aid; (2) federal aid; and (3) local, non-property tax receipts such as ticket sales, student fees and interest earnings. These items are deducted because they represent costs that have already been offset by revenue sources other than the property tax or state equalization aid. Debt service costs are included in shared costs, and therefore are aidable costs under the equalization aid formula.

GOVERNOR

Maintain current law inclusion of school district debt levies in the calculation of partial school revenues and debt service costs in the calculation of shared costs.

DISCUSSION POINTS

1. As outlined in the current law portion of this paper, the issue of school district debt enters into state support for K-12 education as part of total school district revenues included in partial school revenues and as part of shared costs aided under the equalization aid formula. On the revenue side, referenda-approved debt levies affect the *amount of state funding* required to meet the state's commitment to fund two-thirds of partial school revenues. On the cost side, debt service costs affect the *distribution of state funding* under the equalization aid formula.

2. Local property tax revenues levied for the support of referenda-approved debt are included in the definition of partial school revenues for which the state provides an estimated two-thirds level of support. While the amount of referenda-approved debt has been steadily increasing over the past two biennia, state aid for referenda-approved debt as a percent of total state support of K-12 education has remained below six percent. Based on the May, 1999, two-thirds funding reestimate completed by DOA, DPI and the Fiscal Bureau, under AB 133, state support for referenda-debt will be approximately 5.98% and 6.02% of total state support in 1999-00 and 2000-01 respectively. Table 1 outlines the portion of state support for K-12 education due to referenda-approved debt.

TABLE 1
Portion of State Support for K-12 Education Due to
Referenda-Approved Debt
(\$ in Millions)

	1995-96	1996-97	1997-98	1998-99	May 1999 Estimates	
					1999-00	2000-01
Estimated total Levy for Referenda-Approved Debt	\$245.5	\$323.8	\$346.0	\$380.9	\$420.0	\$440.0
Support of Referenda-Approved Debt Under Two-Thirds Funding	N.A.	\$215.9	\$230.7	\$253.9	\$280.0	\$293.3
Total State Support for K-12 Education	\$3,024.5	\$4,035.4	\$4,274.0	\$4,458.7	\$4,682.5	\$4,873.8
Aid for Referenda-Approved Debt as % of State Support	N.A.	5.35%	5.40%	5.69%	5.98%	6.02%

3. Debt service costs are included in shared costs, which are aided at three separate rates under the state equalization aid formula. Using shared costs data from 1997-98, debt service costs are approximately \$361.7 million, or 6.16% of total shared costs of \$5,867.1 million. Statewide debt service costs per member were \$417 in 1997-98 and ranged from a high of \$1,779 per member to a low of no debt service costs at all for 11 school districts.

4. When local voters approve a school district referendum to issue long-term debt for school construction projects, it is important to consider both the macro/statewide level effects and the micro/school district level effects of the referendum's passage. For example, assuming a 20-year even payment schedule and a 6% interest rate, if a school district passed a \$15 million referendum in November, 1998, and issued the bonds in April, 1999, the district will incur approximately \$1.3 million in debt service costs in 1999-00, depending on the structure of the bond issue.

At the macro/statewide level, this would increase partial school revenues by \$1.3 million in 1999-00, which would increase the cost of two-thirds funding of partial school revenues by \$866,700 in 1999-00. This increase in state general aid would be distributed among the 426 school districts. Most school districts would gain state aid as a result of this increase in funding, while some would be unaffected, but no school district would lose aid as a result of this increase in partial school revenues.

At the micro/school district level, the district would be required to levy for the full \$1.3 million in 1999-00 because state equalization aid is based on prior year costs. In 2000-01, the amount of state aid that the school district would receive is dependent on how the school district fares under the equalization aid formula. In all cases, these additional debt service costs would be marginal costs and therefore, would be aided at the marginal, not the average, rate of support. Most school districts have per pupil costs that exceed the secondary cost ceiling, therefore any marginal costs would be aided at the tertiary level of the equalization aid formula for most school districts.

Those districts without tertiary costs would be aided for these additional costs at the secondary level, or a combination of the secondary and tertiary levels if these additional costs cause the district costs to exceed the secondary cost ceiling. Primary aid-only districts would not be aided for these additional costs.

Districts that receive positive tertiary or secondary aid would receive positive state support for these additional debt service costs; however, because the level of state support for school district costs decreases from the primary to the secondary to the tertiary level, the marginal level of state support for these additional costs will be lower than the average level of state support for the district's costs. Some districts receive negative tertiary aid and would lose state aid for these additional debt service costs.

5. Because the cost of funding two-thirds of partial school revenues continues to increase annually at a rate faster than inflation, limiting future increases to a more moderate rate may be beneficial for the state's financial stability. Although in 1998-99 state aid for referenda-approved debt equals only 5.69% of total state support for K-12 education and debt service costs equal only 6.16% of total statewide shared costs, one limited approach to constraining the growth in state funding for K-12 education would be to modify the way the state supports referenda-approved debt or aids debt service costs.

6. Proponents of such a modification point to the rise in referenda approvals since the implementation of the state's commitment to two-thirds funding as evidence that school districts are using the state's funding methodology to convince voters to approve school district building projects. They argue that if the voters in a local school district approve a referendum, state funding should not be provided to support those additional costs, or state funding for those costs should at least be limited.

7. Opponents of a modification in the state's method for supporting and aiding school district debt argue that limiting the amount of school district debt that is supported by the state would be retreating from the state's commitment to fund two-thirds of partial school revenues. Additionally, restricting the amount of debt service costs that are included in shared costs would be contrary to the goal of tax base equalization, which minimizes the differences among school districts' abilities to raise revenues for educational programs. Finally, the Governor did not propose a modification to the treatment of referenda-approved debt or debt service costs, and has argued that the state should continue to fund two-thirds of partial school revenues, as defined under current law.

Debt Service Shared Costs

8. The Committee may wish to address the school district debt situation through limiting the amount of debt service costs that school districts could include in shared costs. One proposal would exclude all debt service costs from the definition of shared costs that would be aided under the state's equalization aid formula. Because two goals of the equalization aid formula are to discourage higher than average shared costs and equalize state aid across school districts by comparing school district equalized values to state guaranteed valuations, such an alternative would

have significant redistributive effects. In 1998-99, if all debt service costs had been excluded from shared costs, approximately \$58.8 million of state aid would have been redistributed. Generally, this aid would have been redistributed from lower-value, lower-cost districts to higher-value, higher-cost districts, with 238 districts losing aid, 154 gaining aid and 34 districts unaffected.

9. A similar option that would have more moderate aid redistribution effects would be to limit the amount of debt service costs that could be included in the calculation of shared costs to the statewide per pupil debt service costs, which would change each year as statewide membership and debt service costs change. In 1998-99, total statewide debt service costs of \$361,694,800 divided by total statewide membership of 867,547 yields \$417 per pupil in debt service costs. In 1998-99, if each district were limited to \$417 per pupil in debt service costs, total debt service costs that would have been aided under the equalization aid formula would have decreased from \$361.7 million to \$267.0 million.

Under this proposal, \$10.8 million would have been redistributed under the equalization aid formula in 1998-99, with 254 school districts gaining aid, 133 districts losing aid and 39 districts unaffected. While generally this aid would have been redistributed from lower-value, lower-cost districts to higher-value, higher-cost districts, this aid redistribution would have been more moderate than under the former proposal. Additionally, this method would have included an aid redistribution from districts with higher debt service costs to those with lower debt service costs, regardless of value, because the equalizing effects of negative tertiary aid would not have been as muted as under the former proposal.

10. Proponents of this alternative contend that limiting the amount of debt service costs that the state will aid under the equalization aid formula would reduce the state aid incentives that proponents believe school districts have under the current method of aiding school district shared costs. They feel that school districts would no longer be able to advertise the benefits of a building referendum by telling voters that the state would aid a certain percentage of total debt service costs. Thus, school district officials would more likely have to convince citizens to vote for a referendum based solely on the project merits, rather than the state aid implications. Therefore, proponents believe that fewer school districts would pass referenda and the cost of two-thirds funding would be reduced.

11. Opponents of this alternative maintain that limiting the debt service costs aided by the state would stifle the equalization goals of the state's distribution of school aids. Additionally, such an alternative would provide an unfair advantage to higher-value districts in passing building referenda because high-value districts would be better able to support the debt service costs not aided by the state through their property tax levy than would low-value districts. Further, opponents believe that state aid implications have a minimal effect on the passage of school district referenda, as evidenced by several recently approved referenda for which the state would provide very low or negative marginal levels of support. Finally, because this alternative would not necessarily limit the level of partial school revenues, opponents maintain that the state's commitment to two-thirds funding would not likely moderate or decrease.

Referenda-Approved Debt Revenues

12. An alternative to limiting the amount of debt service cost included in shared costs would be to address the school district debt situation through limiting the amount of referenda-approved debt that would be included in the definition of partial school revenues and therefore supported through the state's two-thirds funding commitment. This could be done by imposing an aggregate statewide limit on the amount of school district debt levy that the state would recognize for the purposes of calculating partial school revenues. Under this option, a statewide limit of \$420 million could be established for 2000-01, which is the estimated school district debt levy for 1999-00.

13. The effect of this alternative would be that the state would establish a cap on the total amount of referenda-approved debt that it would be willing to support under its two-thirds funding commitment. If, in the aggregate, school districts exceed this limit, then all school districts would see a proportional reduction in state support for all school district costs. In estimating partial school revenues for the purpose of estimating the state's cost of funding two-thirds of partial school revenues, if the debt levy increased to \$440 million, a debt levy of \$420 million would be used rather than the actual debt levy amount. In this case, the state's definition of partial school revenues would be \$20 million less than actual partial school revenues, and therefore the amount of funding necessary to fund two-thirds would be \$13.3 million lower. However, the statewide school property tax levy would be \$13.3 million higher than otherwise would be the case.

14. Proponents of this alternative argue that because this option focuses on limiting the amount of debt levy that the state will fund, rather than the individual school district costs that it will aid, it is a more effective method for limiting the increases in the cost of two-thirds funding. In addition, it would not affect the equalization goals of the school aid formula because it would continue to aid all school district costs as under current law. In other words, it focuses on the level of state funding for K-12 education, rather than the distribution of state funding for K-12 education.

15. Opponents assert that such an alternative would not limit the perceived or actual incentives that individual school districts utilize to pass referenda. In other words, if a school district can pass a referendum, increase its shared costs and thereby increase its state aid, then such an alternative would not limit school districts' abilities to pass referenda. Under this alternative, school districts would be competing against each other for state aid from a more limited amount of state funding. In addition, altering the definition of partial school revenues could be perceived as receding from the state's commitment to fund two-thirds of partial school revenues.

16. If the Committee were to impose an aggregate statewide limit of \$420 million on the amount of school district debt levy that the state would include in the calculation of partial school revenues, the cost of funding two-thirds of partial school revenues would decrease by \$13.3 million GPR in 2000-01 due to an estimated school district debt levy of \$440 million in that year.

17. Because referenda-approved debt and debt service costs make up such a small percentage of total partial school revenues and shared costs respectively, the Committee may wish

to maintain the current methodology for supporting debt levies and debt service costs. Arguably, because other school district revenues and costs are not treated differently, it may be inconsistent to treat debt revenues and costs differently, especially after they have received approval by a majority of voters in a school district. Voters may have approved a referendum for educational reasons, such as improved technology, safer and more accessible buildings or growing enrollments and therefore, to the extent possible, the state should provide the same level of support and equalized distribution of aid as with other educational revenues and costs.

ALTERNATIVES

1. Beginning in 2000-01, for each school district, limit the amount of per pupil debt service costs to be included in the definition of shared costs that would be aided under the state's equalization aid formula to the annual statewide total debt service costs divided by the annual statewide membership.

2. Beginning in 2000-01, limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues to the lesser of the actual referenda-approved school district debt levy or \$420 million. Delete \$13,333,300 GPR from general school aids in 2000-01 to adjust two-thirds funding of partial school revenues.

<u>Alternative 2</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	-\$13,333,300

3. Maintain current law.

Prepared by: Ruth Hardy

(Gov) Agency: DPI -- School District Referenda Scheduling

Recommendations:

Paper #764: Alternative 3, maintain current law.

Comments: This is an attack on local control that has no place in the budget. The provision is similar to AB 105, which has passed the Assembly on a 50-47 vote.

Prepared by: Bob



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May 20, 1999

Joint Committee on Finance

Paper #764

School District Referenda Scheduling (DPI -- School District Operations)

[LFB 1999-01 Budget Summary: Page 503, #1]

CURRENT LAW

State Trust Fund and Long-Term Loans. If any municipality, including a school district, is not empowered by law to incur indebtedness for a particular purpose without first submitting the question to its electors, the application for a state trust fund loan for that purpose is required to be approved and authorized by a majority vote of the electors at a special election. The special election must be called, noticed and held in the manner provided for other special elections. The notice of the special election must state the amount of the proposed loan and the purpose for which it would be used. Every application for a long-term loan by a unified school district, the required repayment of which exceeds 10 years, must be approved by a majority vote of the electors of the school district at a special election.

Joint Contracts. A municipality, including a school district, may enter into a joint contract with a nonprofit corporation organized for civic purposes and located in the municipality to construct or otherwise acquire, equip, furnish, operate and maintain a facility to be used for municipal and civic activities if a majority of the voters voting in a referendum at a special election or at a spring primary or election or September primary or general election approve the question of entering into a joint contract.

School District Borrowing. In submitting a resolution to the voters for the purposes of borrowing, the school board is required to direct the school district clerk to call a special election for the purpose of submitting the resolution to the electors for approval or rejection or to submit the resolution at the next regularly scheduled primary or election to be held not earlier than 45 days after the adoption of the resolution.

Milwaukee Public Schools. If the MPS School Board deems it necessary to exceed a statutory 0.6 mill levy rate for purposes of a school construction fund, it may by a two-thirds of the members-elect, include a communication to the Common Council of the City of Milwaukee

as part of the budget transmitted to the Council. Upon receipt of the communication, the Council is required to cause the question of exceeding the levy rate to be submitted to the voters of the City at the September election or at a special election.

If the MPS School Board deems it necessary to construct buildings or additions to buildings, to remodel buildings or to purchase school sites or to provide funds for any such purpose as a participant in an intergovernmental contract, it may by a two-thirds vote of the members-elect send a communication to the Council requesting that the Council submit a question to the voters to issue school bonds. Upon the receipt of the communication, the Council is required to cause the question of issuing such school bonds in the stated amount and for the stated school purposes to be submitted to the voters at the next election held in the city.

Referendum to Exceed Revenue Limit. In submitting a resolution to exceed the school district revenue limit to voters, a school board may call a special referendum, or a referendum at the next succeeding spring primary or election or September primary or general election, if such election is to be held not earlier than 35 days after the adoption of the resolution of the school board.

GOVERNOR

Provide that certain school district referenda requirements would be modified as follows:

State Trust Fund and Long Term Loans. Provide that if any school district is not empowered by law to incur indebtedness for a particular purpose without first submitting the question to its electors, the application for a state trust fund loan for that purpose would be required to be approved and authorized by a majority vote of the electors. Specify that this referendum could only be held at the next regularly scheduled spring election or general election that occurs not sooner than 45 days after the adoption of the resolution or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date occurs not sooner than 45 days after the adoption of the resolution. Require that the referendum be called, noticed and held in the manner provided for other referenda. Require that the notice of the referendum state the amount of the proposed loan and the purpose for which it would be used. Modify the current law requirement that every application for a long-term loan by a unified school district, the required repayment of which exceeds 10 years, be approved at a referendum as provided above.

Joint Contracts. Modify a current law requirement for voter approval of certain joint contracts entered into by municipalities, to require that if the municipality is a school district, the referendum would have to be held at the next spring election or general election to be held not earlier than 45 days after submittal of the issue or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date occurs not earlier than 45 days after submittal of the issue.

School District Borrowing. Require that a resolution for the purposes of school district borrowing be submitted to the voters at the next spring election or general election to be held not earlier than 45 days after the adoption of the resolution or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date occurs not earlier than 45 days after the adoption of the resolution.

Milwaukee Public Schools. Require that if the MPS School Board deems it necessary to exceed a statutory 0.6 mill levy rate for purposes of a school construction fund, the question be submitted to the voters at the next regularly scheduled spring election or general election that occurs not sooner than 45 days after receipt of the communication or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date occurs not sooner than 45 days after receipt of the communication.

Require that a proposal to issue bonds for MPS school construction or remodeling be submitted to the voters at the next regularly scheduled spring election or general election that occurs not sooner than 45 days after receipt of the communication or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date occurs not sooner than 45 days after receipt of the communication.

Referendum to Exceed Revenue Limit. Require that a school board wishing to exceed its revenue limit call a referendum at the next succeeding spring election or general election, if such election would be held not earlier than 45 days after the adoption of the resolution of the school board, or at a special election held on the Tuesday after the first Monday in November in an odd-numbered year if that date would occur not earlier than 45 days after the adoption of the resolution of the school board.

Effective Date. Provide that these modifications would first apply with respect to referenda called on or after the effective date of the bill.

DISCUSSION POINTS

1. Several legislative bodies have recently endorsed proposals that would limit the dates upon which all municipalities (including school districts) could schedule referenda. During the 1997-99 legislative session, the Legislative Council Study Committee on the Elections Process included such a proposal in its final recommendations; however, the Legislative Council removed these provisions prior to introduction of legislation. In March, 1999, Assembly Bill 105, which would limit referenda dates for all municipalities (including school districts), was passed by the Assembly by a vote of 50 ayes and 47 noes. The Governor's recommendation is similar to these proposals, but would limit referenda dates for school districts only, rather than for all local units of government.

2. Based on data collected by the Department of Public Instruction (DPI), since the advent of school district revenue limits in 1993-94, school districts have offered a total of 966 referenda. Of these referenda, 31.6% have been subject to a vote at an annual spring election or a

November general election date, while 21.1% have been put to voters during a spring or September primary election and 47.3% have been offered during a special election on another date. Since the inception of the state's commitment to fund two-thirds of partial school revenues in 1996-97, school districts have offered a total of 568 referenda. Of these referenda, 35.8% have been scheduled on an annual spring election or a November general election date, while 20.4% have been submitted to voters during a spring or September primary election and 43.8% have been offered during a special election on another date. Table 1 provides a further breakdown of school district referenda vote scheduling.

TABLE 1

**Number of School District Referenda Offered
By Timing of Election Date**

	<u>Spring Primary</u>		<u>September Primary</u>		<u>Spring Regular</u>		<u>November General</u>		<u>All Other Dates</u>		<u>Total</u>	
Post Revenue Limits *	94	9.7%	110	11.4%	201	20.8%	104	10.8%	457	47.3%	966	100.0%
Post Two-Thirds **	45	7.9%	71	12.5%	123	21.7%	80	14.1%	249	43.8%	568	100.0%

* Includes 1993-94 school year through December 1998.

** Includes 1996-97 school year through December 1998.

3. Under the Governor's proposal, school districts could hold referenda two days per year, during the annual spring election, or the November general election in even-numbered years or the Tuesday after the first Monday in November in odd-numbered years. According to staff at the Department of Administration (DOA), this proposed limit on the number of days that school districts may hold a referendum vote is intended to encourage higher voter turnout for such referenda, particularly because of the potential effect on both local property taxes due to the revenue limit exception and statewide general fund taxes due to the increase in the cost of two-thirds funding of partial school revenues.

4. Staff at the State Elections Board report that the best guarantee for higher voter turnout is citizen interest in an issue or race. While there is no central data source through which to analyze voter turnout for local school district referenda questions, Elections Board staff indicates that generally voter turnout is highest during the November general election. During the 1990s, November statewide general election turnout has ranged from a low of 38.7% in 1990 to a high of 68.9% in 1992. On spring election dates, statewide voter turnout during the 1990s has ranged from a low of 14.6% in 1994 to a high of 34.2% in 1992. Voter turnout during September primary elections in the 1990s has ranged from a low of 10.3% in 1990 to a high of 21% in 1992. Local voter turnout figures likely vary significantly across the state, and cannot be predicted for special elections.

5. Proponents of the proposal believe that some school districts may be scheduling referenda during odd special election dates in an effort to suppress voter turnout and increase the likelihood of passage of their building or revenue limit referendum. Proponents feel that especially because of the enhanced financial benefits of a successful referendum due to both revenue limits and, for some districts, increased state equalization aid funding, school districts may have an increased incentive for scheduling referenda during a time when voter turnout is not at its peak.

6. Opponents of the Governor's proposal assert that generally school districts schedule referenda during times when they feel they can attract the greatest local turnout and therefore, support. Because voter turnout is dependent on voter interest in a race, local school district questions may be able to garner significant voter turnout due to the importance of the referendum for local school programs and property tax levels, regardless of the date of the vote.

7. Table 2 provides an outline of referenda success rates by election date since the beginning of revenue limits and two-thirds funding respectively. The table shows the total number and funding amount of referenda offered for spring and September primaries, spring regular elections, November general elections and all other dates, as well as approval rates based on number of referenda and total funding requested. Based on this data, it appears that school district referenda have been approved at the highest rates when they have been before voters on the regular spring election date. Since the beginning of two-thirds funding, referenda offered during regular spring elections have been approved of a rate of 64.2% based on number of referenda and 67% based on total funding requested. Referenda offered during a November general election appear to have the next highest approval rates, followed by referenda offered on special election dates, and finally those offered during a primary election.

TABLE 2

**School District Referenda Approval Rates by Election Date
(\$ in Millions)**

	Spring & September		Spring Regular		November General		All Other Dates		Total	
	Primaries									
	Total	Approved %	Total	Approved %	Total	Approved %	Total	Approved %	Total	Approved %
<i>Post Revenue Limits *</i>										
Number	204	50.0%	201	61.2%	104	55.8%	457	54.5%	966	55.1%
Funding	\$1,250.6	45.6%	\$878.8	59.3%	\$721.4	49.9%	N.A.	N.A.	N.A.	N.A.
<i>Post Two-Thirds **</i>										
Number	116	50.9%	123	64.2%	80	55.0%	249	53.0%	568	55.3%
Funding	\$783.9	45.3%	\$492.5	67.0%	\$583.5	54.2%	\$1,459.7	51.1%	\$3,319.5	52.7%

* Includes 1993-94 school year through December 1998.

** Includes 1996-97 school year through December 1998.

8. Based on this data, it appears that school district referenda are most likely to pass during elections that traditionally have higher voter turnout. The spring election dates may be particularly beneficial for school district referenda passage because spring elections include the State Superintendent race every four years and generally include school board and other local races, which may attract voters who are especially interested in education and/or local government issues. However, it is difficult to speculate what the passage rate for all school district referenda would have been had they been scheduled during either the November general election or spring election, as proposed under AB 133. Because it appears that higher voter turnout is beneficial for the passage of school district referenda, the overall approval rate, which was 55.3% of the number offered and 52.7% of the funding requested since 1996-97, may have been higher had all of the school district referenda been voted on during spring regular or November general elections. However, because school districts may currently schedule referenda during times when they believe they are most likely to pass, overall passage rates may be lower under the Governor's proposal.

9. Proponents of the Governor's proposal argue that because the outcome of a local school district referendum could have an effect on the amount of funding that is required to meet the state's two-thirds funding commitment and therefore, the level of state expenditures, the state should be able to limit the dates upon which school districts are allowed to offer a referendum to voters. Additionally, because the cost of administering a referendum vote is more expensive during a special election than during an active primary, spring or general election, because school districts are not able to share the costs with another municipality, referenda dates should be limited to times during which other elections are likely to occur.

10. Opponents assert that local school boards should maintain the authority to decide when a school district referendum is proposed to voters and that the Governor's proposal hinders the tradition of local control of school district policies and finances. In addition, opponents argue that revenue limits and the state's commitment to fund two-thirds of partial school revenues was predicated on the ability of local voters to increase local school revenues, if desired. They believe that limiting the ability of local citizens to vote on a school district referendum represents a diminution of both the state's commitment to two-thirds funding and local control of school district business.

11. The cost of state support of referenda-approved school district debt as a percent of the total cost of state support has increased modestly since the outset of two-thirds funding in 1996-97, but has remained below six percent of total cost. Based on projections for two-thirds funding of partial school revenues under AB 133, aid for referenda-approved debt will remain below six percent of the total in 1999-00 and will be 6.02% in 2000-01. Table 3 outlines the portion of state support for K-12 education due to referenda-approved debt since 1995-96, as well as estimates for 1999-01 under the provisions of AB 133.

TABLE 3

**Portion of State Support for K-12 Education Due to
Referenda-Approved Debt
(\$ in Millions)**

	1995-96	1996-97	1997-98	1998-99	May 1999 Estimates	
					1999-00	2000-01
Estimated total Levy for Referenda-Approved Debt	\$245.5	\$323.8	\$346.0	\$380.9	\$420.0	\$440.0
Support of Referenda-Approved Debt Under Two-Thirds Funding	N.A.	\$215.9	\$230.7	\$253.9	\$280.0	\$293.3
Total State Support for K-12 Education	\$3,024.5	\$4,035.4	\$4,274.0	\$4,458.7	\$4,682.5	\$4,873.8
Aid for Referenda-Approved Debt as % of State Support	N.A.	5.35%	5.40%	5.69%	5.98%	6.02%

12. Arguably, reducing the number of dates on which a school district may schedule a referendum from potentially 365 dates per year to two dates per year may be too restrictive. In order to provide school districts with more flexibility, the Committee may wish to extend the number of dates that school districts could schedule a referendum to include the spring primary, held in most election districts in each year, the September primary, held in even-numbered years, and the second Tuesday in September in odd-numbered years. Under this alternative, school districts would generally be provided four dates per year upon which they could schedule referenda. These dates, excluding the odd-numbered-year September and November dates, covered 56.2% of all referenda scheduled since 1996-97.

13. There may be emergency situations under which school districts would need to schedule a referendum on a date other than those proposed under AB 133. While many of these situations may be covered by insurance, which would mitigate a school district's need to go to referendum, there may be circumstances under which school districts cannot avoid a referendum to issue long-term debt or exceed the revenue limits. In order to provide school districts with a mechanism through which they could receive a waiver of the referenda scheduling dates for emergency purposes, the Committee may wish to create a referenda scheduling appeals board to which school districts could submit a request to schedule a referendum on a special election date.

14. It may be beneficial for such a board to have a statewide perspective on school districts and the elections process and be able to act quickly in the case of an emergency. For example, the Committee could create a board composed of the Governor or Lieutenant Governor, who would chair the board, the State Superintendent and the Chair of the State Elections Board, or their designees. The Lieutenant Governor may be an appropriate chair for such a board because the office has recently worked on K-12 education issues, including pupil academic standards. The board could be required to act upon a school district request to schedule a referendum as a special election within ten working days of receipt of the request.

15. Alternatively, the Committee may wish to create an appeals board similar to the board proposed under AB 105, which would consist of the Governor, the Senate Majority and Minority Leaders, the Speaker of the Assembly and the Minority Leader of the Assembly. AB 105 proposes much broader referenda restrictions which apply to all types of municipalities, therefore, an appeals board that focuses on education issues may be more appropriate for a school district appeals process. In addition, since school districts across the state could make an appeal, it may be desirable for the board to be composed of members holding a statewide office.

16. Many school districts may already have scheduled referenda for the summer and fall of 1999, to be incorporated in their revenues for the 1999-00 school year, if approved. Because school districts may already have spent considerable time developing the proposal and may have incurred costs for scheduling the referenda, the Committee may wish to delay the effective date of this provision until January 1, 2000. This would provide school districts with more time to prepare any spring referenda to be scheduled on the required dates, but would not affect district's that have already scheduled referenda for the coming months of 1999.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation through one or more of the following:
 - a. Permit school districts to also schedule referenda on the spring primary, the September primary and the second Tuesday in September in odd-numbered years.
 - b. Create a referenda date appeals board composed of the Governor or Lieutenant Governor, who would chair the board, the State Superintendent and the Chair of the State Elections Board, or their designees. Require the board to act upon a school district request to schedule a referendum as a special election, within ten working days of receipt of the request.
 - c. Create a referenda date appeals board composed of the Governor, who would chair the board, the Senate Majority Leader, Senate Minority Leader, the Speaker of the Assembly and the Assembly Minority Leader, or their designees from the Senate or the Assembly. Require the board to act upon a school district request to schedule a referendum as a special election, within ten working days of receipt of the request.
 - d. Provide that these provisions would first apply with respect to referenda called on or after January 1, 2000.

3. Maintain current law.

Prepared by: Ruth Hardy

MO#	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	BURKE	DECKER	JAUCH	MOORE	SHIBILSKI	PLACHE	COWLES	PANZER	GARD	PORTER	KAUFERT	ALBERS	DUFF	WARD	HUBER	RILEY
	<div style="display: flex; justify-content: space-between;"> AYE NO ABS </div>															

(Gov) Agency: DPI -- Interdistrict Transfer Program -- Sender Aid

Recommendations:

Paper #765: Alternative 2

Comments: The gov proposes cutting this aid, which MPS says reducing this aid may threaten the future of Chapter 220, which is an unpopular option, especially with suburban folks who like the money.

MPS directors visiting the office said they support rethinking the whole program to resolve constitutional and other problems. However, dramatic change should not be made in the short term. 5,400 students participate now.

Sen. Moore and Rep. Duff are both reportedly working on motions.

Prepared by: Bob



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May 20, 1999

Joint Committee on Finance

Paper #765

Interdistrict Transfer Program -- Sender Aid (DPI -- General School Aid)

[LFB 1999-01 Budget Summary: Page 484, #5]

CURRENT LAW

Under current law, the integration pupil transfer (Chapter 220) program consists of two components, *interdistrict* (pupils transfer between school districts) and *intradistrict* (pupils transfer within one school district). Funding for the program is distributed as a first draw from the equalization aid appropriation. Under the interdistrict transfer program, the state provides a financial incentive to both the school district that accepts transfers, the receiving district, and the district from which the transfers came, the sending district.

The receiving district is paid an amount equal to its average net cost per pupil multiplied by the number of transfer pupils accepted by the district. A district's net cost equals its total operating and debt service costs funded through property taxes and state general school aids.

The sending district continues to count the pupil transfers as 1.0 pupil, or as a number equal to the result obtained by multiplying 1.0 by the appropriate fraction for various types of kindergarten pupils, for both school district revenue limit and general school aid purposes, even though the district no longer serves them. Commonly referred to as sender aid, a separate aid payment is not calculated for a sending district; instead, the district receives these funds as part of its general school aid payment.

Current law requires that a school district that also operates an intradistrict transfer program be responsible for the transportation of pupils under the interdistrict transfer program. In 1998-99, school districts received funding for approximately 5,400 pupils who transferred to another school district in 1997-98 under this program.

GOVERNOR

Provide that any K-12 pupil who transfers from one school district to another under the interdistrict transfer program would be counted by the school district in which the pupil resides as 0.5 pupil. Provide that in determining a school district's revenue limits for the 1999-00 school year or for any school year thereafter, DPI would be required to calculate the number of pupils enrolled in each school year prior to the 1999-00 school year as the number was calculated in that school year under the 1997 statutes. This calculation, as summarized above, would be deleted for purposes of determining pupil enrollment in future years.

Provide that these provisions would first apply to state aid paid in the 2000-01 school year. These modifications would result in a lower statewide enrollment for revenue limits in 1999-00, and a lower enrollment and membership for both revenue limits and state aid in 2000-01. Staff at DOA estimate that the cost of two-thirds funding of partial school revenues would decrease by \$4,400,000 GPR in 1999-00 and \$9,200,000 GPR in 2000-01 compared to estimates of current law.

DISCUSSION POINTS

1. The integration aid program was enacted by Chapter 220, Laws of 1975, and first went into effect in the 1976-77 school year. The stated purpose of Chapter 220 is "to facilitate the transfer of students between schools and school districts to promote cultural and racial integration in education where students and their parents desire such transfer and where schools and school districts determine such transfers serve educational interests." One of the major goals of Chapter 220 was to achieve racial balance on a voluntary basis and at no cost to local taxpayers. The program provides state funds, in the form of unrestricted aid, as an incentive to school districts to desegregate their schools.

2. In 1998-99, 24 school districts, all 18 within Milwaukee County and six outside Milwaukee County are participating to varying degrees in the interdistrict transfer program. Twenty-three of these districts transferred resident pupils to another school district and were able to count those pupils in the district's general aid and revenue limit calculations. Table 1 provides an estimate of the general school aid implications for these resident transfers. The table outlines the number of resident transfers in 1997-98, for which the districts received general school aids in 1998-99, as well as the current law calculation of general school aids including the transfer pupils and an estimate of general aid calculated without the inclusion of the transfer pupils in the district's membership. The per pupil amount of general school aid that a district receives is the marginal amount of adding a pupil to its aid calculation, not the average amount per pupil.

TABLE 1

1998-99 Estimated Sender Aid

<u>School District</u>	<u>1997-98 Resident Transfers</u>	<u>1998-99 General Aid Transfers Included</u>	<u>1998-99 General Aid Transfers Deleted</u>	<u>Sender Aid</u>
Brown Deer	17	\$2,309,269	\$2,292,269	\$17,000
Cudahy	27	14,020,244	13,890,120	130,124
Elmbrook	37	7,064,862	7,027,862	37,000
Fox Point J2	1	1,635,583	1,634,583	1,000
Franklin Public	19	13,091,975	12,999,093	92,882
Germantown	8	8,972,675	8,982,170	-9,495
Glendale-River Hills	15	1,596,055	1,581,055	15,000
Greendale	12	5,224,501	5,150,602	73,899
Greenfield	55	7,983,928	7,426,356	557,571
Hamilton	10	9,774,544	9,762,437	12,108
Menomonee Falls	17	5,136,618	5,119,618	17,000
Mequon-Thiensville	11	3,983,656	3,972,656	11,000
Milwaukee	4,891	551,392,759	544,343,204	7,049,556
New Berlin	14	4,396,668	4,382,668	14,000
Nicolet UHS	3	2,327,917	2,324,917	3,000
Oak Creek-Franklin	39	17,416,763	17,188,297	228,467
Saint Francis	17	6,176,240	6,081,433	94,807
Shorewood	14	7,424,267	7,332,164	92,102
South Milwaukee	16	16,335,567	16,337,974	-2,406
Wauwatosa	80	17,700,560	16,906,521	794,039
West Allis	107	30,213,745	29,441,425	772,320
Whitefish Bay	8	7,874,386	7,860,077	14,309
Whitnall	20	7,264,751	7,112,240	152,511
TOTAL	5,438			\$10,167,793

3. School districts also receive a revenue limit increase as a result of counting resident interdistrict transfer pupils in enrollment. Therefore, a district's total allowable revenues increase by the number of pupils it sends to another district multiplied by the district's allowable revenues per pupil including all interdistrict transfer pupils. A portion of these additional revenues is provided through the general school aid calculation, at a varying rate depending how the district fares under the equalization aid formula; the remaining revenues are levied through local property taxes. Therefore, sender aid is the combination of the revenue limit and equalization aid change for these pupils. The primary beneficiary of sender aid is the Milwaukee Public Schools (MPS). In the 1997-98 school year, almost 90% of the 5,438 interdistrict transfer pupils were MPS residents. The 4,891 pupils who transferred from MPS to the suburban school districts represented 4.7% of Milwaukee's 1997-98 membership.

4. The school districts that receive pupils under the interdistrict transfer program also receive state aid for the pupils sent to them from other districts. Table 2 provides a breakdown by school district of estimated 1998-99 interdistrict transfer aid in total and per transfer. The table shows that while payments per transfer averaged \$7,530, they ranged from a low of \$6,052 (Milwaukee) to a high of \$11,074 (Maple Dale-Indian Hill). These payments are equivalent to the average net cost per pupil for each individual school district. Because these payments are considered a general school aid, they are paid to school districts as state aid under the revenue limits. Therefore, payments do not increase the overall revenues available to a school district, but do permit school districts to levy a lower amount of local property taxes.

TABLE 2
1998-99 Estimated Interdistrict Transfer Payments

	Pupil Transfers	Total Aid	Aid Per Transfer
Brown Deer	127.75	\$1,087,496	\$8,513
Cudahy	208.08	1,595,919	7,670
Elmbrook	317.69	2,554,440	8,041
Fox Point J2	116.50	1,158,881	9,947
Franklin Public	364.75	2,987,182	8,190
Germantown	40.50	290,326	7,169
Glendale-River Hills	104.80	874,365	8,343
Greendale	145.00	1,137,564	7,845
Greenfield	210.22	1,508,640	7,176
Hamilton	71.50	524,810	7,340
Maple Dale-Indian Hill	75.60	837,205	11,074
Menomonee Falls	307.00	2,432,149	7,922
Mequon-Thiensville	160.98	1,190,724	7,397
Milwaukee	547.78	3,314,967	6,052
New Berlin	111.00	969,223	8,732
Nicolet UHS	140.00	1,537,151	10,980
Oak Creek-Franklin	141.50	924,196	6,531
Saint Francis	126.14	895,574	7,100
Shorewood	300.30	2,398,013	7,985
South Milwaukee	347.74	2,133,698	6,136
Wauwatosa	729.52	4,942,075	6,774
West Allis	206.25	1,506,865	7,306
Whitefish Bay	337.50	2,648,255	7,847
Whitnall	<u>200.27</u>	<u>1,503,505</u>	<u>7,507</u>
TOTAL	5,438.37	\$40,953,223	\$7,530

5. Staff at the Department of Administration (DOA) indicate that the Governor recommended reducing the sender aid provisions of the program because by aiding transfer pupils under both the sending and receiving district, the state double aids the pupils and therefore, increases the cost of funding two-thirds of partial school revenues. By only counting resident

interdistrict transfer pupils as 0.5, rather than 1.0, the Governor's recommendation would reduce the cost of two-thirds funding because overall statewide enrollment would decrease. However, while a pupil would continue to receive partial state aid under the sending district and full-cost aid under the receiving district, the pupil would not be fully counted in the calculation of partial school revenues. Therefore, while the pupil generates state aid for the school district, he or she does not generate the full revenue amount upon which two-thirds funding is based.

6. Officials at MPS assert that reducing sender aid may threaten the future of the Chapter 220 program because the District may not be able to continue funding the transportation costs of the program, which under current law are the responsibility of MPS for all pupils in the program. Officials at suburban school districts surrounding Milwaukee argue that significantly reducing participation in the interdistrict transfer program could lead to increased property taxes or revenue reductions for their districts. For many of these school districts, the interdistrict aid payments compose the majority of the aid that they receive from the state, and therefore, represent a significant form of property tax relief for these communities.

7. In 1997-98, MPS reported approximately \$11.6 million for the costs of transporting pupils under the interdistrict transfer program, and has budgeted approximately \$11.7 million for this purpose in 1998-99. In 1998-99, the general school aid portion of MPS sender aid totaled approximately \$7.0 million, therefore, the additional costs of transporting interdistrict transfer pupils must be funded through the revenue limit authority provided under sender aid that is not covered by state aid, additional local property taxes and other, non-sender aid general school aids. As with all participating school districts, the Chapter 220 payments to MPS for receiving transfer pupils is intended to pay for the costs of educating additional pupils.

8. Because it appears that current sender aid payments do not fully cover the costs of transporting pupils, a 50% reduction in sender aid may further hinder MPS's ability to fully fund the interdistrict transportation costs. Because MPS is the largest beneficiary of sender aid payments and because MPS is solely responsible for program transportation, it appears that a cut in the aid received under this provision may reduce the financial incentive for MPS to participate in the program. In order to ensure the continuation of the current interdistrict transfer program, the Finance Committee may desire to maintain current law.

9. Arguably, MPS should not be responsible for funding all of the transportation costs for the program, particularly because the suburban districts receive generous per pupil payments for receiving pupils under the program. In order to ease some of the financial burden of transporting all interdistrict transfer pupils, it may be desirable to delete the requirement that MPS fund all of the transportation costs of the program. Because each of the districts currently enter into interdistrict transfer agreements, the responsibility for transportation could be arranged under these agreements. Such an alternative may be desirable under both the proposed sender aid level, as well as under current law because current payments to MPS do not appear to cover the full costs of transportation.

10. On the other hand, the responsibility for all transportation costs was originally assigned to MPS in order to avoid the administrative difficulties that may have arisen with multiple

agreements among school districts. MPS generates aid under the intradistrict program that was, in part, intended to fund the full transportation costs of both intradistrict and interdistrict transfers.

11. While hindering MPS's ability to fully fund the transportation costs of the interdistrict transfer program may prevent the District from continuing its current level of participation in the program, it may be difficult for MPS to fully cease participation. Under current law, because sender aid permits MPS to count each resident interdistrict transfer pupil as 1.0, the same as if the pupil were attending MPS, if MPS were to keep all of these pupils within the District, it would receive no additional state aid, but would be responsible for the cost of educating the pupils. While the Governor's recommendation would provide more of an incentive for MPS to stop sending pupils to other districts, MPS still may not be able to make up for the differential costs of sending versus keeping a pupil. Finally, it has been argued that MPS may not have the physical capacity to retain the approximately 5,000 pupils that are currently educated elsewhere under Chapter 220.

12. The aid payments that a district of attendance receives under the interdistrict transfer program are based on the full costs of educating a pupil in that district and vary widely depending on the district costs. However, it could be argued that the addition of a pupil does not require payments equivalent to the average full cost of a pupil because the school district would not actually have to increase costs to such a degree. Rather, a marginal cost payment may be more appropriate, which would attempt to isolate the actual additional costs of an extra pupil. Further, because many of the districts that receive pupils under the program are higher-cost, higher-value districts, payments under the interdistrict transfer program are much higher than what the district would generate under the general equalization aid formula. While reducing these payments would not create a savings for the state due to the commitment to fund two-thirds of partial school revenues, a reduction in these payments would reallocate a significant amount of state aid away from these districts to other school districts in the state.

13. Because the Governor's proposal would reduce the financial benefits granted to a school district of residence, primarily MPS, to participate in the interdistrict transfer program, it may be appropriate to provide a parallel reduction to the amount of aid received by a school district of attendance. Such an alternative could provide that a school district of attendance would receive aid for a pupil transferring to the district under the Chapter 220 program equivalent to one-half of the per pupil net cost for the school district. This would reduce the payments outlined in Table 2 by 50%, and would have redistributed approximately \$20.5 million to other school districts across the state under the general equalization aid formula.

14. On the other hand, because the goal of the Chapter 220 program is to promote racial integration in the greater Milwaukee area, higher state aid payments and additional aid for school districts of residence may be a necessary incentive to meet the original court order, and now that the order has expired, to continue progress toward greater racial integration. By providing state payments for the program as a first draw from the general school aids appropriation, the state has made the goal of greater racial balance among participating school districts a priority.

ALTERNATIVES

A. Sender Aid Reduction

1. Approve the Governor's recommendation that any K-12 pupil who transfers from one school district to another under the interdistrict transfer program would be counted by the school district in which the pupil resides as 0.5 pupil.

2. Delete the Governor's recommendation and continue to permit the school districts to count each resident transfer pupil as 1.0 pupil. Provide \$4.4 million in 1999-00 and \$9.2 million in 2000-01 for general school aids in order to maintain funding for two-thirds of partial school revenues.

<u>Alternative A2</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	\$13,600,000

3. In addition to either of the above alternatives, delete the requirement that a school district that participates in both the interdistrict and intradistrict transfer program, the Milwaukee Public Schools, be responsible for the full transportation costs of pupils who participate in the interdistrict transfer program.

B. School District of Attendance Per Pupil Payment Amount Reduction

In addition to any of the above alternatives, provide that a school district of attendance would receive aid for a pupil transferring to the district under the Chapter 220 program equivalent to one-half of the per pupil net cost for the school district, beginning in 1999-00.

Prepared by: Ruth Hardy

(Gov) Agency: DPI -- Neighborhood Schools and MPS Intradistrict Transfer Aid

Recommendations:

Paper #766: Alternative 4 (maintains current law)

Comments: The governor would require MPS to use some of this transportation money to build neighborhood schools. Yes, neighborhood schools are great, but this might be more acceptable if the word "require" were changed to "allow."

Point 14 estimates \$3.3 million annually would be available under this provision, insufficient to do much building.

- WEAC supports maintaining current law.
- DPI suggests Alt. 1, approving the gov's language.

Prepared by: Bob



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May 20, 1999

Joint Committee on Finance

Paper #766

Neighborhood Schools and MPS Intradistrict Transfer Aid (DPI -- General School Aid)

[LFB 1999-01 Budget Summary: Page 485, #6]

CURRENT LAW

Under current law, the integration pupil transfer (Chapter 220) program consists of two components, *interdistrict* (pupils transfer between school districts) and *intradistrict* (pupils transfer within one school district). Funding for the program is distributed as a first draw from the equalization aid appropriation. In order to qualify for intradistrict integration aid, a school district must transfer pupils between school attendance areas with certain concentrations of minority or non-minority pupil populations. The statutes define attendance area as the geographical area within a school district established by the school board for the purpose of designating the elementary, middle, high or other school which pupils residing in the area would normally attend. A minority group pupil is defined under state law as a Black American, a Native American, a Spanish-surnamed American or an Oriental American.

State aid is provided for each minority pupil who is transferred from an attendance area where minority pupils comprise 30% or more of the population to an attendance area that has less than a 30% minority pupil population. In addition, aid is paid for each non-minority pupil who transfers from a non-minority attendance area (less than 30% minority) to a minority attendance area (30% or more minority). In order to be eligible for state aid, pupils must be four years old on or before September 1 of the year they enter school.

Under current law, several provisions apply to varying attendance areas: (1) pupils attending schools serving the entire school district are aided to recognize the existence of magnet or specialty schools that have citywide attendance areas; (2) school districts with merged attendance area plans are aided, where the attendance area for two or more schools are combined and all the pupils enrolled in certain grade levels attend only one of these schools; and (3) any

desegregation plan established prior to enactment of Chapter 220 is eligible for integration aid if the plan is approved by the State Superintendent.

State aid for intradistrict transfers is based on the aid per pupil received by the district under the equalization aid formula. Intradistrict transfer aid is calculated by multiplying the number of eligible transfer pupils by 0.25 and then multiplying this product by the district's current year equalization aid payment per pupil. Stated another way, a school district receives an additional one-quarter of its equalization aid per pupil for each intradistrict transfer. In part, this weighting factor is used to address the school district's transportation costs associated with the program. As an example of this provision, if a district had 500 intradistrict transfers and received \$4,000 per pupil in equalization aid, its integration aid payment would be calculated as follows:

Intradistrict transfers		500
Weighting factor	x	<u>.25</u>
Weighted pupils	=	125
Equalization aid per pupil	x	<u>\$4,000</u>
Integration aid	=	\$500,000

School districts receive state aid based on the number of pupils transferred in the prior school year. For example, integration aid paid in fiscal year 1998-99 reflects pupil transfers in the 1997-98 school year. State aid for merged attendance area plans is calculated according to the same formula as intradistrict transfer aid.

GOVERNOR

Provide that a first class city school system, which applies only to Milwaukee Public Schools (MPS), would be required to use at least 10% of the amount of its intradistrict transfer aid in each school year to build or lease neighborhood schools.

DISCUSSION POINTS

1. In 1998-99, an estimated \$38,965,700 will be paid to five school districts under the intradistrict transfer portion of the Chapter 220 program. Of this total, an estimated \$32,946,600 (84.5%) will be paid to MPS for transferring approximately 26,900 pupils during the 1997-98 school year. The other four school districts will receive an estimated \$6.0 million in 1998-99. Table 1 displays pupil transfers and state aid amounts since 1994-95 for the five school districts participating in the intradistrict component of Chapter 220. The decline in intradistrict transfer aid in 1996-97 is largely attributable to a change in the payment percentage from 32.5% to 25%.

TABLE 1
Intradistrict Transfer Payments

	<u>Beloit</u>	<u>Madison</u>	<u>Milwaukee</u>	<u>Racine</u>	<u>Wausau</u>	<u>Total</u>
1994-95						
Pupil Transfers	188	815	25,175	4,677	680	31,535
Aid Payment	\$258,046	\$0	\$26,256,202	\$3,905,640	\$579,838	\$30,999,726
Aid per Pupil	\$1,373	\$0	\$1,043	\$835	\$853	\$983
1995-96						
Pupil Transfers	206	831	25,662	4,582	554	31,835
Aid Payment	\$309,634	\$44,950	\$30,582,363	\$4,293,308	\$533,786	\$35,764,041
Aid per Pupil	\$1,503	\$54	\$1,192	\$937	\$964	\$1,123
1996-97						
Pupil Transfers	116	836	25,476	4,640	592	31,660
Aid Payment	\$151,283	\$306,958	\$27,872,909	\$4,564,786	\$590,372	\$33,486,308
Aid per Pupil	\$1,304	\$367	\$1,094	\$984	\$997	\$1,058
1997-98						
Pupil Transfers	60	804	26,748	4,480	568	32,660
Aid Payment	\$80,273	\$336,275	\$31,419,271	\$4,582,693	\$587,130	\$37,005,642
Aid per Pupil	\$1,338	\$418	\$1,175	\$1,023	\$1,034	\$1,133
1998-99 (Estimates)						
Pupil Transfers	36	768	26,924	4,492	604	32,824
Aid Payment	\$49,979	\$378,555	\$32,946,630	\$4,930,442	\$660,131	\$38,965,737
Aid per Pupil	\$1,388	\$493	\$1,224	\$1,098	\$1,093	\$1,187

2. The Governor's proposal is intended to address the concern that MPS's current stock of school buildings is inadequate to meet the educational needs of a large urban school district in the 21st Century. The age of MPS's buildings ranges from 117 years old to seven years old, with the average being 63 years for the 115 elementary schools, 44 years for the 22 middle schools and 53 years for the 18 high schools. Additionally, the District has not been able to sufficiently expand its capital plant to address the changing population densities and demographics of the City, especially due to the lack of voter support for a building referendum. It has been nearly 30 years since voters approved an MPS referendum; the last successful referendum passed in April, 1970, for a total of approximately \$60 million. The most recent referendum attempt was in February 1993, which proposed approximately \$366 million for school construction and maintenance; it failed by a margin of over three to one.

3. While MPS agrees that its building stock is in need of upgrading, the District argues that earmarking intradistrict aid for this purpose would hinder the District's ability to fund the transportation and related costs of the intradistrict transfer program. MPS officials argue that the Governor's proposal amounts to a reduction in the available revenues for MPS operations.

4. For 1997-98, MPS reported intradistrict transfer transportation expenditures totaling approximately \$17.1 million, which the District funded through intradistrict transfer aid and other revenue sources. Under current law, there are no requirements for how a district must expend aid received under the Chapter 220 program, and districts are not required to utilize Chapter 220 aid to cover the costs of the program. School districts may not claim categorical transportation aid for pupils transported under Chapter 220 program; however, Chapter 220 transportation costs not aided may be included in shared costs under the state equalization aid formula.

5. In 1997-98, MPS reported that non-transportation costs associated with the program totaled approximately \$46.4 million, which were funded through intradistrict aid and other revenue sources. The additional intradistrict costs reported are educational costs, primarily curricular, that MPS incurs for pupils participating in the intradistrict transfer program. However, because these pupils are current MPS pupils, as opposed to pupils who transfer from outside MPS, aside from transportation and program administrative costs, these costs could generally be viewed as the costs of educating existing MPS pupils, which are already aided under the equalization aid formula. Certain schools within MPS that receive a substantial number of intradistrict transfer pupils may incur additional costs due to an influx of pupils, but these costs may also be aided under the equalization aid formula.

6. It appears that MPS receives sufficient intradistrict transfer aid to cover all of its transportation costs under the program, and would continue to receive sufficient aid to cover these costs under the Governor's proposal. Based on data from 1997-98 reported to DPI, transportation costs totaled approximately \$17.1 million and intradistrict aid totaled approximately \$31.5 million. While additional costs exceeded the remaining \$14.4 million of aid, arguably these costs could be more properly reported as the costs of educating average MPS pupils, rather than costs associated directly with the Chapter 220 program. In 1998-99, MPS has budgeted approximately \$15.8 million for intradistrict desegregation transportation and will receive an estimated \$32.9 million in intradistrict transfer aid.

7. However, under current law, MPS is responsible for funding the transportation costs of all pupils who participate in the interdistrict aid program between MPS and other Milwaukee-area school districts. Because of this, intradistrict aid was originally intended to pay for the transportation costs associated with both the intradistrict transfer program and the interdistrict transfer program. In 1997-98, MPS reported approximately \$11.6 million in interdistrict transportation costs, and has budgeted approximately \$11.7 million for this purpose in 1998-99. Therefore, total MPS Chapter 220 transportation costs were approximately \$28.7 million in 1997-98 and are budgeted at \$27.5 million in 1998-99, which is somewhat less than the \$31.5 million and \$32.9 million intradistrict aid payments, although MPS also benefits from sender aid under the interdistrict program. While MPS does not appear to budget or expend intradistrict aid based on this original intent, with the combination of interdistrict and intradistrict transportation, administration and other direct program costs, MPS may not receive sufficient aid to permit them to dedicate it to other purposes.

8. Opponents of the Governor's proposal argue that the Chapter 220 intradistrict

program was originally established to compensate for the decades of damage done to MPS pupils because of racial segregation. The additional aid, above that provided for transportation costs, is intended to improve the education of both minority and non-minority pupils who benefit from an integrated school district and the improved educational opportunities available due to Chapter 220 aid.

9. Opponents also assert that denying MPS the flexibility to expend intradistrict aid on curricular and other programs for current MPS pupils will force the District to recede from its mission to fully implement intradistrict transfers and thus, take advantage of the benefits of racial integration. Additionally, MPS officials indicate that under MPS's open enrollment policy, over 80% of parents regularly request that their children have the opportunity to transfer to another school outside of their attendance area for both educational and social reasons. Many parents would prefer that their children be bussed to another school rather than walk to school in an unsafe neighborhood, or would prefer that their children attend school closer to their workplace in order to coordinate daycare with work obligations. Impairing MPS's ability to take full advantage of Chapter 220 aid may be denying parents the choice to send their children to the most appropriate school.

10. Proponents of the Governor's proposal argue that because the demographics of the City of Milwaukee have changed significantly since the implementation of the Chapter 220 program in 1976, the intradistrict transfer program is no longer fully responding to the educational and social needs of MPS pupils. They argue that the program has regressed to a bussing program that moves minority pupils from one minority area to another minority area with a slightly lower percentage of minority pupils, and therefore, is no longer accomplishing the goal of racial integration. In addition, they assert that MPS pupils spend too much time being bussed from one part of the City to another, rather than spending time in the classroom. MPS officials indicate that, on average, elementary pupils spend approximately 45 minutes per day on a school bus.

11. In 1998-99, non-minority schools in MPS (less than 30% non-minority) account for 19 of the 92 (21%) elementary schools, two of the 14 (14%) middle schools and two of the 12 (17%) high schools that are not considered citywide schools, based on a report provided by MPS. There are 23 citywide elementary schools, seven citywide middle schools and four citywide high schools. Total MPS enrollment is composed of approximately 80% minority pupils.

12. Proponents believe that the District should focus its existing resources on building more adequate facilities for MPS pupils, particularly in areas of the District that have a sufficient population to support expanded school facilities and are currently underserved by existing MPS facilities. They feel that the goal of the proposal is to expand the diversity of educational opportunities throughout currently underserved portions of the District, thereby reducing the need for parents to request that their children be bussed to another area of MPS.

13. The Governor's proposal would require that 10% of interdistrict aid be earmarked for building or leasing neighborhood schools; in 1998-99, this would have totaled approximately \$3.3 million. According to staff in the MPS Division of Facilities and Maintenance Services, generally the cost of constructing a new school building in the District ranges from \$5.95 million for

a 70,000 square foot elementary school to \$64 million for a 400,000 square foot high school, not including the cost of site acquisition. While the cost of constructing a new school building varies depending on the specifications and types of facilities, Table 2 provides a range of cost and size estimates for new school buildings for the three major types of schools.

TABLE 2

Estimated Cost Range for Newly Constructed MPS Buildings

School Type	Cost/Square Foot		Total Square Footage		Total Cost Range	
	Low	High	Low	High	Low	High
Elementary Schools	\$85	\$100	70,000	75,000	\$5,950,000	\$7,500,000
Middle Schools	100	125	125,000	150,000	12,500,000	18,750,000
High Schools	150	160	350,000	400,000	52,500,000	64,000,000

14. Based on these estimates, \$3.3 million would not be sufficient to build even one new elementary school annually. MPS would either have to utilize the funding to renovate or lease existing space or construct a new building over the course of two or more school years. However, nothing under current law or the proposal would prevent MPS from dedicating existing resources for this purpose, in addition to the proposed 10% of intradistrict aid.

15. In order to ensure that MPS allocates sufficient resources for this purpose, the Committee could require that MPS utilize intradistrict transfer aid received for: (1) intradistrict transfer transportation for the purposes of racial integration; and (2) to build neighborhood schools. The amount allocated for neighborhood schools could be determined by calculating the amount of aid received in the current year, subtracting prior year transportation costs and requiring that the difference be utilized for neighborhood schools. For example, had this proposal been in effect in 1998-99, neighborhood school funding would be calculated as follows:

1998-99 Intradistrict Aid	\$32,946,630
1997-98 Intradistrict Transportation Costs	- 17,142,507
1998-99 Neighborhood Schools Funding	\$15,804,123

The remaining aid could be utilized for transportation costs, to the extent necessary, or neighborhood schools. Arguably, as new neighborhood schools are built, fewer parents may chose other schools, and the transportation costs of the district could decline. However, intradistrict aid would also decline because aid distribution is based on the number or pupils bussed to other attendance areas. It is likely that MPS would have to reduce programs and costs currently aided by intradistrict aid, and requiring MPS to open new schools would likely increase the operating costs of the District.

16. The Committee could provide MPS with an annual, non-recurring revenue limit

adjustment, equivalent to 10% or 20% of MPS's intradistrict transfer aid. This would enable MPS to dedicate additional resources for the purpose of constructing neighborhood schools and/or fully or partially cover the costs that are currently funded through intradistrict aid and would not be fully covered by such aid under the proposal. Such a revenue limit adjustment would increase statewide partial school revenues and the cost of the state's commitment to fund two-thirds of partial school revenues. Assuming a five percent annual increase in MPS's intradistrict aid, the Committee would need to increase the general school aids appropriation by an estimated \$2.3 million GPR in 1999-00 and \$2.4 million GPR in 2000-01 if an adjustment equivalent to 10% of intradistrict aid would be provided, or an estimated \$4.6 million GPR in 1999-00 and \$4.8 million GPR in 2000-01 if an adjustment equivalent to 20% of intradistrict aid would be provided.

17. It could be argued that providing MPS the ability to construct new buildings through the use of current state funding or a revenue limit exception, would circumvent the will of the local voters, who have not passed a building referendum in almost 30 years. Additionally, the proposal and alternatives outlined above would provide MPS with a method for constructing new buildings that is not currently provided to other school districts in the state. On the other hand, due to the size of MPS and its status as a school system of a first class city, many state laws apply to the District that do not apply to other school districts. Additionally, because of the condition of its capital plant and its inability to finance improvements at the local level, the approach proposed in the Governor's recommendation or the modifications outlined above may be the only avenue through which to provide the over 100,000 pupils who attend MPS the opportunity to attend a newly built school.

ALTERNATIVES

1. Approve the Governor's recommendation to require MPS to use at least 10% of the amount of its intradistrict transfer aid in each school year to build or lease neighborhood schools.

2. Modify the Governor's recommendation to require that MPS only utilize intradistrict transfer aid for: (a) intradistrict transfer transportation for the purposes of racial integration; and (b) to build neighborhood schools. The amount allocated for neighborhood schools would be determined by calculating the amount of aid received in the current year, subtracting prior year transportation costs and requiring that the difference be utilized to build neighborhood schools.

3. In addition to Alternative 1 or 2:

a. Provide MPS with an annual, non-recurring revenue limit adjustment, equivalent to 10% of MPS's intradistrict transfer aid. Increase the general school aids appropriation by an estimated \$2.3 million GPR in 1999-00 and \$2.4 million GPR in 2000-01 in order to maintain two-thirds funding of partial school revenues.

<u>Alternative 3a</u>	<u>GPR</u>
1999-01 FUNDING (Change to Bill)	\$4,700,000

b. Provide MPS with an annual, non-recurring revenue limit adjustment, equivalent to 20% of MPS's intradistrict transfer aid. Increase the general school aids appropriation by an estimated \$4.6 million GPR in 1999-00 and \$4.8 million GPR in 2000-01 in order to maintain two-thirds funding of partial school revenues.

Alternative 3b	GPR
1999-01 FUNDING (Change to Bill)	\$9,400,000

4. Maintain current law.

Prepared by: Ruth Hardy

Representative Riley

Representative Duff

Senator Burke

Representative Ward

CHAPTER 220 INTEGRATION AID

Intra-District Aid and \$200 Million in Redevelopment Authority Bonding

Motion:

Move to:

a. Limit the intra-district aid received by Milwaukee Public Schools (MPS) for transferring a pupil out of a pupil's neighborhood attendance area to another area unless MPS has obtained the written consent of the pupil's parent or guardian prior to the transfer, for pupils who exceed certain percentage thresholds under (b). If such consent is not obtained, specify that MPS would be ineligible for intra-district aid for that pupil. In addition, MPS could not receive aid for the transportation costs relating to that pupil under the state categorical transportation aid nor under state equalization aid.

b. Beginning in 1999-00, MPS would be required to annually collect and report to the Legislature on the number and percentage of students transferred outside of their attendance district without their parents' or guardians' permission. This data would be reported on an attendance area basis, indicating the pupils' race, sex and grade level.

c. Establish the following percentage thresholds for the percentage of pupils transferred with written consent: school year 2000-01--75%; school year 2001-02--80%; school year 2002-03--90%; school year 2003-04--95%; and 2004-05 and thereafter--100%. Provide that MPS would not be eligible to receive aid as specified in (a) for each pupil by which MPS fails to attain these percentage goals.

d. Provide that MPS would be required to submit a plan to the Joint Finance Committee (JFC) on the following by May 1, 2000:

1. How the target percentages will be met;
2. A facility plan specifying the neighborhood schools that would be needed, the location of specialty schools and the estimated cost of the facility plan;
3. Other means by which neighborhood school capacity could be expanded, including remodeling and use of nontraditional facilities; and
4. Specific plans for creating neighborhood schools and replicating or relocating specialty

schools throughout the City in a way that would increase neighborhood school attendance.

e. Specify that the plan under (c) would be subject to review and approval by JFC under s.13.10 no later than September 1, 2000. Provide that JFC could approve or modify the plan, and that the Department of Public Instruction (DPI) could not release any MPS intra-district transfer aid for 2000-01 until JFC has acted.

f. Require each neighborhood school in MPS to provide space for non-neighborhood transfer pupils beginning in school year 2000-01, to allow pupils to transfer between schools and attendance areas within the system. Provide that if this reserved space is not used by pupils from outside a school's attendance area, then pupils from within that school's attendance area could fill those reserved spaces. Specify that once pupils would be admitted to a school, they could continue in that school in future years and that their siblings would be given priority for attendance at that school in any selection process. Provide that MPS could use any intra-district aid to maintain prior neighborhood school attendance, allowing MPS to use this aid to transport pupils who move during the school year back to their original school, if the pupil so chooses.

g. Authorize up to \$200 million in bonding for the Redevelopment Authority of the City of Milwaukee to finance capital improvements at the request of MPS to implement the plan approved under (d). Specify that this bonding limitation would exclude obligations issued to refund outstanding bonds or notes under this authorization and that these bonds could be issued without referenda approval. Provide that the bonds could not have a maturity in excess of 20 years and that no bonds could be issued more than five years after the effective date of the bill. Specify that the intra-district aid received by MPS could be used to pay debt service on these bonds. Authorize DPI at the request of MPS to intercept state aid to MPS and remit it to the Authority in an annual amount agreed upon by MPS and the Authority. Specify that MPS could not levy to replace any aid that is used to pay debt service on these bonds.

h. Establish a state moral obligation pledge for this \$200 million of bonding as follows:

Special Debt Service Reserve Fund. Provide that the Authority could create special debt service reserve funds by designating one or more accounts that would be used for amounts set aside for the payment of principal and interest and for the creation and maintenance of any required reserves. This reserve could only be created if, prior to each bond issue, the Secretary of Administration would determine that all of the following conditions would be met with respect to the bonds:

Purpose. The bond proceeds, other than refunding bonds, would be used for MPS school facilities.

Feasibility. There would have to be a reasonable likelihood that the bonds would be repaid without the necessity of drawing on funds in the reserve fund that secures the bonds. This likelihood would be determined by the Secretary of Administration after considering all of the following:

1. Whether a pledge of MPS revenues is made under the bond resolution.
2. How the MPS revenues are pledged to the payment of the bonds, including any loan, lease or lease purchase agreement evidencing the obligation of MPS to make payments to the Redevelopment Authority of the City of Milwaukee.
3. The proposed interest rates of the bonds and the resulting cash-flow requirements.
4. The projected ratio of annual revenues to annual debt service of the Authority, taking into account capitalized interest.
5. Whether an understanding exists providing for repayment by the Authority to the state of all amounts appropriated to the reserve fund and whether the Authority has agreed to provide DOA with all financial reports and regular monthly statements of any trustee of the bonds on a direct and ongoing basis.
6. Whether the Authority has agreed that DOA would have direct and immediate access, at any time and without notice, to all records of the Authority relating to these bonds.

Refunding bonds. All refunding bonds secured by a special debt service reserve fund would have to meet all of the following conditions:

1. The refunding bonds would be issued to fund, refund or advance refund bonds secured by the reserve.
2. The refunding of bonds would not adversely affect the risk that the state would be called on to make a payment under its moral obligation pledge.

Approval of outstanding debt. All outstanding debt of the Authority from this \$200 million of the Authority would have to be reviewed and approved by the Secretary of Administration. In making this determination, the Secretary could consider any factor that would have a bearing on whether the state moral obligation pledge should be granted.

Payments to Reserve Fund. The Authority would pay into the reserve fund any monies provided by the state for the purpose of the fund, any proceeds of a sale of bonds as specified in the bond resolution and any other monies made available to the Authority for this purpose from any other source.

Use of Monies in the Special Debt Service Reserve Fund. The monies held in the reserve fund would be used solely for payment of the principal, interest or sinking fund payments on the bonds, or for the purchase, redemption or redemption premiums of the bonds, unless otherwise specifically provided. The Authority would be unable to use the fund for any optional purchase or redemption of bonds if the fund balance were to drop below the amount required in the bond resolution. Permit interest earned in the reserve funds to be transferred to other funds or accounts of the Authority relating to these bonds as long as the transfer would not reduce the fund balance below the reserve fund requirement.

Limitation on Bonds Secured by a Special Debt Service Reserve Fund. Require the Authority to maintain a fund balance in the reserve fund that would equal an amount stated for that purpose in the bond resolution. Additional bonds secured by this reserve fund could not be issued if the amount of reserve funds would be less than the required reserve amount.

Special Debt Service Reserve Fund Requirement. The reserve fund requirement, as of any particular date, would equal the amount provided in the bond resolution, such that it may not exceed the maximum annual debt service on the bonds for that or any future fiscal year. Bonds deemed to have been paid would not be included in bonds outstanding when computing annual debt service. The annual debt service would equal all principal, interest and specified sinking fund payments (based on the assumption that the bonds would cease to be outstanding by reason of the payment of the bonds when due and all of the sinking fund payments payable at the date of computation).

Valuation of Securities in Special Debt Service Reserve Fund. The securities in which the reserve fund is invested would be valued periodically at their fair market value when determining the amount of a reserve fund.

State Moral Obligation Pledge. Provide that if the value of the special debt service reserve fund were to drop below the bond resolution requirement, the Authority would certify to the Secretary of Administration, the Governor, the Joint Committee on Finance, the amount necessary to restore the reserve fund to the required amount. The Secretary would be required to include the certified amount in the budget compilation if the certification was received in an even numbered year prior to the completion of the budget compilation. In any case, the Committee would be required to introduce a bill in either house appropriating the certified amount to the appropriate reserve fund of the Authority. Specify that the Legislature recognizes a moral obligation to make this appropriation, and expresses its expectation and aspiration that if ever called upon to do so, it would make this appropriation.

i. Establish a hold harmless provision for the amount of intra-district aid received by MPS. Provide that beginning in 1999-00, the intra-district aid received by MPS would be the greater of the 1998-99 aid amount, adjusted for the change in the March-over-March Consumer Price Index or the actual amount generated under the intra-district aid program less any aid reduced under (a). Specify that this hold harmless provision would continue to apply until the state general obligation bonds are paid off. Provide that in the year following the last principal and interest payment on the state bonds, intra-district aid to MPS would decline to the actual aid entitlement of MPS under the intra-district program.

j. Create a commission to study the Chapter 220 interdistrict and intra-district transfer programs. Provide that the commission would be comprised of the following 15 members: (a) the Governor, or his designee, who would chair the commission; (b) one legislator from the majority and minority party in each house of the Legislature; (c) two members of the MPS School Board; (d) two parents of pupils who reside in the MPS school district, appointed by the MPS Superintendent; (e) two members of suburban school district school boards that participate in the Chapter 220 program, appointed by the Governor; (f) two parents of pupils who reside in a suburban school district that participates in the Chapter 220 program, appointed by the suburban school district

Chapter 220 council; and (g) two members who reside in one of the four non-MPS school districts that participate in the intradistrict transfer program, recommended by the school boards of these school districts and appointed by the Governor.

k. Provide that the commission would be required to study the future of the Chapter 220 program and report to the Joint Committee on Finance by January 1, 2000 with recommendations to: (a) reduce the transportation cost of the program to the state and the participating school districts; (b) maintain the goal of racial desegregation, where feasible; and (c) limit the impact of the program on other school districts in the state.

L. Modify the bill to restore current law treatment for resident school districts of pupils who transfer between school districts (sender aid) in 1999-00 and provided that these pupils would be counted by the school district in which the pupil resides as 0.50 pupil beginning in 2000-01. Provide \$4,400,000 GPR annually to maintain two-thirds funding of partial school revenues.

m. Delete \$6,590,000 GPR annually of aid to MPS for MPS extended-day preschool to grade six, full-day kindergarten and first grade programs. Provide \$2,196,600 GPR annually of equalization aid funding to maintain two-thirds funding of partial school revenues. Require MPS to continue operation of these programs at the same funding level as in 1998-99.

Note:

This motion would authorize \$200 million of bonding for the Redevelopment Authority of the City of Milwaukee. Under the motion, MPS could use intra-district aid to pay the debt service on these bonds.

[Change to Bill: \$13,200 GPR]

MO# As amended by
MO # 1191

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 11 NO 5 ABS _____

CHAPTER 220 INTEGRATION AID

Amendment to Motion #1198

Motion:

Move to modify Motion #1198 as follows:

- ~~1. Delete a. and c. relating to the percentage thresholds of pupils transferred with written consent;~~
- ~~2. Delete d. (1) relating to how the target percentages will be met;~~
- 3. Add d. (5) to require that the plan identify alternative settings to educate pupils that would meet pupil safety and ADA standards;
- 4. Delete j. and k. relating to a commission and instead request that the Joint Legislative Council study the Chapter 220 program and report to the Legislature by January 1, 2007.

MO# as amended

2 BURKE	(Y)	N	A
DECKER	Y	(N)	A
JAUCH	(Y)	N	A
1 MOORE	(Y)	N	A
SHIBILSKI	(Y)	N	A
PLACHE	(Y)	N	A
COWLES	(Y)	N	A
PANZER	(Y)	N	A
GARD	Y	(N)	A
PORTER	(Y)	N	A
KAUFERT	(Y)	N	A
ALBERS	(Y)	N	A
DUFF	(Y)	N	A
WARD	(Y)	N	A
HUBER	(Y)	N	A
RILEY	(Y)	N	A

AYE 14 NO 2 ABS _____

(Gov) Agency: DPI -- Per Pupil Annual Revenue Increase

Recommendations:

Paper #770: Alternative 2

Comments: The governor would delete the inflation adjustment to the per pupil revenue increase amount, freezing the rate at 98-99 level of \$208.88.

WEAC, WASB and DPI are united in support of maintaining inflation adjustment.

Prepared by: Bob