

**AGENCY:** WI Technical College System

**LFB Paper#:** 1275

**ISSUE:** Eliminating TOP Grants

**ALTERNATIVE:** #4 to both aspects

**SUMMARY:**

A1  
#29, B4

We do not want to eliminate TOP grants. In addition we do not want to then create the funding for Education Assistance for Dislocated workers.

These changes would overly burden the WTCS which already faces a number of cuts in the Governor's proposal. Also the Governor's plan would require the WTCS board to generate rules and implement and administer this program as well.

The WTCS TOP grant program should be maintained and no funding diverted into the proposed grants for displaced workers.

ALTERNATIVE: #4 on both A and B; Maintain current law.

BY: KATY



## Legislative Fiscal Bureau

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March 4, 2002

Joint Committee on Finance

Paper #1275

### **Eliminate the Technical and Occupational Program Grants for Students and Create an Educational Assistance Program for Dislocated Workers (WTCS)**

[LFB Summary of the Governor's Budget Reform Bill: Page 106, #2 and Page 107, #3]

#### **CURRENT LAW**

The technical and occupational program (TOP) grant was established in 1999 Act 9 to provide \$500 annual tuition grants to recent high school graduates attending a technical college district. To be eligible for a TOP grant, a student must be enrolled in an associate degree or vocational diploma program as a first-year student and on a full-time basis. In addition, a student must enroll in a technical college within three years of graduating from a Wisconsin high school and maintain a 2.0 GPA while in technical college. Students who meet these requirements are entitled to a \$500 annual grant to defray a portion of the costs of tuition and fees. Under 2001 Act 16, the TOP grant program was reduced from a two-year grant to a one-year grant starting in 2002-03.

Under 2001 Act 16, \$6,600,000 GPR is provided in a sum certain appropriation for TOP grants in 2001-02 and \$4,200,000 GPR in 2002-03.

#### **GOVERNOR**

Eliminate the technical and occupational program grants to students with \$4,200,000 GPR in 2002-03, effective July 1, 2002.

Provide \$4,200,000 GPR in 2002-03 in a new, annual appropriation for the WTCS Board to provide educational assistance for dislocated workers. Beginning in the 2002-03 school year, require the WTCS Board to pay a student's tuition and fees at a technical college district from funding provided in the new appropriation if the student satisfies all of the following criteria: (a) the student is a dislocated worker who has been referred to the district by a local work force development board; (b) the worker is enrolled in an associate degree program or a vocational

diploma program; and (c) the student maintains a grade point average of at least 2.0. If the amount appropriated in any fiscal year is insufficient to pay the tuition and fees of all eligible students, the Board would make payments in the order in which they were received. Require the WTCS Board to promulgate rules to implement and administer this program.

## **DISCUSSION POINTS**

### **TOP Grants**

1. Technical and occupational program grants were implemented by WTCS and first became available to students in 2000-01. Approximately 11,700 grants were awarded during the 2000-01 academic year. At \$250 per semester grant, approximately \$2,925,000 in TOP grants were awarded to first-year students in 2000-01. Act 16 provides \$6.6 million in 2001-02 and \$4.2 million in 2002-03 to fund TOP grants for 13,200 students in 2001-02 and 8,400 students in 2002-03 based on estimates made during deliberations on Act 16. Based on current data, it is estimated that approximately 18,400 grants will be awarded in 2001-02 for approximately 9,200 students. Under Act 16, eligibility for the program was reduced from four semesters to two semesters effective July, 2002; as a result, fewer students will be eligible for the program in 2002-03.

2. The Governor's budget reform bill would eliminate TOP grants effective July, 2002, and replace them with an educational assistance program for dislocated workers. It could be argued that TOP grants are open to criticism because they only provide funding for full-time, recent high school graduates regardless of financial need. Most technical college students are part-time, nontraditional students; TOP grants do not benefit this population of students nor does the program accommodate recently displaced workers seeking retraining.

3. While eliminating the TOP grant program may make WTCS less affordable for recent high school graduates, other financial aid programs may help mitigate the loss of the grant. Currently, the largest portion of state aid available to all technical college students is the need-based Wisconsin higher education grants (WHEG) administered by the Higher Educational Aids Board (HEAB). In 2000-01, 18,892 WTCS students or approximately 34.3% of resident undergraduate technical college students enrolled at least half-time received WHEG grants; the average grant was \$739. WHEG funding for technical college students was increased in 2001 Act 16 by 3.25% annually, from \$13,201,900 in 2000-01 to \$13,631,000 in 2001-02 and \$14,074,000 in 2002-03. The Governor's budget reform bill includes a provision to increase WHEG funding for technical college students by an additional \$800,000 in 2002-03. Additional funding for the WHEG program would increase the average grant award for students with financial need and for a broader student population than the TOP grants.

4. One of the original goals of the TOP grant program was to enhance the technical colleges' appeal to recent high school graduates and encourage these students to attend full-time. Historically, technical colleges have attracted students several years after graduation with most attending part-time. The TOP grant program's success in attracting and retaining students for the

technical college districts is not yet known since the program has only been in existence since 2000-01. According to WTCS, in its first year the program was not heavily promoted early in the recruitment process due to delays in passage of the 1999-01 budget, and uncertainty regarding the program's future during the 2001-03 budget discussion has further hindered the recruitment potential of the program. As with prior years, the timing of the Governor's proposal to eliminate the program may affect enrollment decisions for those students anticipating using a TOP grant award to offset a portion of their tuition and fees in 2002-03.

### **Educational Assistance for Displaced Students**

5. The Governor's proposal would provide \$4,200,000 GPR in 2002-03 in a new, annual appropriation for the WTCS Board to provide educational assistance for dislocated workers. Working with local workforce development boards, the technical colleges would provide funding for eligible dislocated worker's tuition through funds allocated by the WTCS Board.

6. The Governor's proposal would supplement existing federally-funded displaced worker training programs. The federal government supports occupational skills retraining programs through the Workforce Investment Act (WIA) and Trade Adjustment Assistance (TAA) program. However, not all workers are eligible for the TAA retraining grants and demand for WIA funded retraining grants exceeds federal funding for the program.

7. The Governor's proposal would support approximately 2,000 FTE tuition grants per academic year. According to DOA staff, no reliable estimate of potential program participation is available, and the amount of funding for the program was simply set at the level of funding provided for TOP grants in 2002-03. If demand for educational assistance for dislocated workers were to exceed funding, eligible workers would need to be placed on waiting lists or additional funding would need to be provided by the Legislature. In the absence of additional funding, displaced workers on waiting lists would need to wait for current participants to complete their program of studies since the Governor's proposal does not contain a time limit for participants.

8. Given the availability of existing federal retraining programs, in addition to federal and state funded need-based financial aid programs, the Legislature could modify the Governor's proposal to create a one-semester limit per participant. Local workforce development board case workers and technical college financial aid officers could work with the displaced worker to identify and apply for existing federal tuition assistance programs and financial aid in order to offset the dislocated worker's tuition costs for subsequent semesters. However, there is no certainty that financial aid and other federal funds would be available or sufficient to cover tuition costs for subsequent semesters for all eligible participants.

9. Some concerns can be raised related to implementing the proposed program. For example, there is no provision specifying how a district would get a tuition refund if a student does not maintain a 2.0 grade point or drops out mid-semester. According to executive budget staff, issues related to the implementation and management of the program would be addressed through the rule-making process. The Governor's proposal includes a provision for the WTCS Board to

promulgate rules for the displaced worker program. As such, the responsibilities for program administration, referrals and other rules would need to be developed by the workforce development boards, the WTCS Board and the technical college districts. Given the timing of the proposal and that the proposed program would need to be in place by fall 2002, it may be desirable to modify the Governor's proposal to allow the Board to use emergency rule making authority to implement the program, without providing evidence of public health, safety or welfare concerns.

10. Currently, tuition at technical colleges recover 14.5% of operational costs for postsecondary/vocation adult courses. Despite state funding for the displaced worker tuition proposed by the Governor, districts could be responsible for funding approximately 85% of the cost per student. Opponents of this proposal argue that since the Governor's budget reform bill would reduce funding for general aid and existing state incentive grants while restricting the ability of districts to increase the operational property tax levy beyond the rate of inflation, the displaced worker program would further burden the districts' financial resources and that the funding allocated for the program may be better utilized elsewhere.

11. Finally, it could be argued that creating a new GPR-funded program at a time when the state faces a \$1.1 billion deficit would not be a desirable allocation of state resources, since existing state and federal programs are available to assist dislocated workers in retraining.

## **ALTERNATIVES TO BILL**

### **A. TOP Grant Program**

1. Approve the Governor's recommendation to eliminate the TOP grant program with \$4,200,000 in 2002-03.

2. Maintain current law.

<b>Alternative A2</b>	<b>GPR</b>
2001-03 FUNDING	\$4,200,000

### **B. Educational Assistance for Dislocated Workers**

1. Approve the Governor's recommendation to provide \$4,200,000 in 2002-03 for educational assistance for dislocated workers in the form of state payment of tuition.

2. Modify Alternative 1 to also allow the WTCS Board to promulgate emergency rules in order to implement the educational assistance program for dislocated workers, without having to provide evidence of the necessity of preservation of the public peace, health, safety or welfare.

3. Modify Alternative 1 to also limit the WTCS Board's payment of an eligible student's tuition and fees at a technical college district to one semester.

4. Maintain current law.

<u>Alternative B4</u>	<u>GPR</u>
2001-03 FUNDING	- \$4,200,000

Prepared by: John Stott

**AGENCY:** WI Technical College System

**LFB PAPER #:** 1276

**ISSUE:** Mill Rat and Levy Limits and Limiting increases in Fees

**ALTERNATIVE:** Maintain Current Law A4-B2

**SUMMARY:**

We do not want current law to change. When coupled with the reduction in state aid to WTCS; the reduction is overly burdensome to Tech colleges.

Maintain current law.

BY: KATY



## Legislative Fiscal Bureau

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March 4, 2002

Joint Committee on Finance

Paper #1276

### Mill Rate and Levy Limit Changes and Limit on Increase in Fees (WTCS)

[LFB Summary of the Governor's Budget Reform Bill: Page 107, #4 and #5]

#### CURRENT LAW

Technical college district property tax levies for all purposes except debt service are limited to 1.5 mills of the district's equalized property valuation.

Tuition for state residents enrolled in post-secondary and vocational adult programs must be set at the level necessary to generate revenue equal to at least 14% of the estimated statewide operational cost of those programs. The uniform tuition charge for college parallel courses must equal at least 31% of the estimated statewide operational cost of such programs.

#### GOVERNOR

Limit the amount of property taxes levied by each WTCS district for all purposes except debt service to the lesser of: (a) the amount levied in the previous year adjusted by the change in the consumer price index between the preceding March 31 and the second preceding March 31; or (b) the amount that would be generated by a levy rate of 1.5 mills. Authorize technical college district boards to exceed the levy limits for operating costs provided the district board adopts a resolution and submits the resolution for approval through a special referendum, but in no case could the levy exceed the amount that would be generated by a levy rate of 1.5 mills. In lieu of a special referendum, the district board could specify that the referendum be held at the next succeeding spring primary or election or September primary or general election if such election would be held not sooner than 42 days after the filing of the resolution of the district board. The district board secretary would be required to publish notices of the referendum and the referendum would be held in accordance with current law governing elections. Specify that the question submitted would be whether the levy limit may be exceeded by a specified amount.



Provide that if the referendum is approved, the levy limit otherwise applicable would be increased by the specified amount.

Specify that program fees charged to students in 2002-03 could not exceed the fees charged students in 2001-02 by more than 10%.

## DISCUSSION POINTS

### Technical College District Financing Overview

1. WTCS districts receive funding from five major sources: (1) property taxes; (2) direct state aid; (3) tuition and fees; (4) federal aid; and (5) self-financing operations and miscellaneous revenues. In 2000-01, the latest year for which data are available, total district revenue was \$973.4 million with \$464.2 million (47.7%) from property tax revenue, \$140.5 million (14.4%) from state aid, \$114.9 million (11.8%) from tuition and fees, \$77.1 million (7.9%) from federal aid, and \$176.7 million (18.2%) from self-financing and other sources.

2. The primary source of revenue for districts is the property tax levy. State law limits property taxes levied by each WTCS district for all purposes except debt service to \$1.50 per \$1,000 (or 1.5 mills) of the district's equalized property valuation. In the early 1990s most districts were levying at or near the mill limit. In the last several years, however, the relatively higher rate of increase in property values has allowed most districts to lower their mill rates. As a result, the systemwide average operational levy mill rate has fallen from 1.44 in 1991-92 to 1.33 in 2001-02 with only three districts (Milwaukee, Southwest and Western) currently at the 1.5 mill rate limit. The total operational levy in 2001-02 is \$406.5 million.

3. The table below shows the statewide equalized value and a breakdown of the total WTCS levy from 1991-92 through 2001-02. Since 1991-92, property valuations have increased at an average rate of 7.5% annually, the total levy has increased by an average of 7.4% per year and the operational levy has increased by an average 6.7% per year.

**WTCS Statewide Tax Levy and Average Mill Rate (\$ in Millions)**

	<u>Equalized Value</u>		<u>Operational Levy</u>			<u>Debt Levy</u>			<u>Total Levy</u>		
	<u>Amount</u>	<u>Percent Change</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>	<u>Amount</u>	<u>Percent Change</u>	<u>Mill Rate</u>
1991-92	\$147,802.3	---	\$213.4	---	1.44	\$37.8	---	0.26	\$251.2	---	1.70
1992-93	156,158.1	5.7%	227.7	6.7%	1.46	40.9	8.2%	0.26	268.6	6.9%	1.72
1993-94	168,174.5	7.7	245.7	7.9	1.46	44.0	7.6	0.26	289.8	7.9	1.72
1994-95	181,676.8	8.0	259.4	5.6	1.43	51.2	16.4	0.28	310.6	7.2	1.71
1995-96	197,728.8	8.8	276.6	6.6	1.40	54.7	6.8	0.28	331.3	6.7	1.68
1996-97	212,840.9	7.6	292.7	5.8	1.38	57.7	5.5	0.27	350.4	5.8	1.65
1997-98	228,403.4	7.3	307.5	5.1	1.35	63.6	10.2	0.28	371.1	5.9	1.62
1998-99	243,852.0	6.8	327.1	6.4	1.34	69.1	8.6	0.28	396.2	6.8	1.62
1999-00	261,083.4	7.1	348.8	6.6	1.34	81.4	17.8	0.31	430.2	8.6	1.65
2000-01	280,085.8	7.3	375.5	7.7	1.34	90.7	11.4	0.32	466.2	8.4	1.66
2001-02	304,965.5	8.9	406.5	8.3	1.33	105.1	15.9	0.35	511.6	9.7	1.68

4. The total technical college property tax levy for 2001-02 is \$511.6 million with an average mill rate of 1.68. The districts' total levy includes both the operational levy and debt levy. There is no statutory limitation for taxes levied for debt service costs. However, a district's bonded indebtedness may not exceed 2% of its equalized property valuations. In addition, a referendum is required for building projects costing more than \$500,000 and if a district proposes to borrow in excess of \$500,000 for building, remodeling or improvement projects. A provision in 2001 Act 16 increased the current \$500,000 threshold for referenda approval of building projects and borrowing to \$1,000,000 beginning in 2002-03.

5. State aid is the second major source of funding for technical college districts. State aid is provided to WTCS districts either in the form of unrestricted general aid or through categorical aids, which support specific programs or services. Under 2001 Act 16, \$138,421,400 GPR was provided in 2001-02 and \$137,421,400 in 2002-03 for state aid programs for technical college districts. The Governor's budget adjustment proposal includes a 4.5% across the board cut to all technical college district state aid in 2002-03. As a result, general aid would be reduced by \$5,328,700 to \$113,086,300 in 2002-03, and funding for all other state aid programs would be reduced by \$856,100 in 2002-03.

6. General aid is the primary source of aid provided to districts by the state. General aid is provided to districts to partially equalize the revenue available for district programs as well as a form of property tax relief. Under 2001 Act 16, \$118,415,000 was provided for general aid for both years of the biennium, the same level of funding that was provided in 2000-01. State general aid increased from \$96,534,500 in 1991-92 to \$118,415,000 in 2001-02, an annualized increase of 2.1%. Over the same time period, district aidable costs increased from \$336,535,200 to \$610,257,243, an annualized increase of 6.1%. The increase in aidable costs has exceeded the rate of inflation (2.7% annually since 1991, as measured by the Consumer Price Index) during this period, while state aid has increased at a rate less than inflation; as a result, technical college districts have had to rely more on other sources of revenue, primarily the property tax levy.

7. Tuition provides the third major source of revenue for technical college districts. The State Board is required, by statute, to annually set uniform tuition charges. For college parallel (CP) courses, tuition must cover not less than 31% of the operational costs and for postsecondary/vocational adult (PS/VA) courses; tuition must cover not less than 14% of the operational costs. Tuition increased from \$36.85 per credit for PS/VA courses in 1990-91 to \$64 per credit in 2001-02, an annualized increase of 5.1%. For CP courses, tuition increased from \$52.80 per credit in 1990-91 to \$90 per credit in 2001-02, an annualized increase of 5.0%.

8. At its January, 2002, meeting, the Board set tuition for 2002-03, increasing tuition by 4.44% for CP courses (\$94 per credit) and 4.7% for PS/VA courses (\$67 per credit). Over the past ten years, the Board has consistently set tuition to recover approximately 14.5% of PS/VA and 31% of CP program costs. However, since the Governor's proposal would reduce state aid and limit the property tax levy in 2002-03, the Board left open the possibility of modifying the tuition schedule for 2002-03 to accommodate the potential revenue shortfall and anticipated increased

operational costs. However, the Governor's budget adjustment bill contains a provision that would limit the ability of the Board to increase tuition charged to students by more than 10%.

### **Technical College District Expenditures**

9. The expenditures supported by all sources of WTCS revenues are commonly divided into operational and non-operational costs. Operational costs are those attributable to providing educational services regardless of funding source. These costs include instruction, instructional resources, student services, physical plant and general/administrative costs. Non-operational costs are all other costs to the districts such as debt service and capital projects.

In 2000-01, total operational costs were \$678.1 million and total non-operational costs were \$379.9 million. The difference between total system costs (\$1,058.0 million) and total revenues (\$973.4 million) in 2000-01 is the result of revenue carried over from prior years as fund balances, which are available for expenditure in the current year, as well as expenditures from bond proceeds. For all expenditure categories, salary and fringe benefits account for the largest share of district expenditures, with \$587.8 million (55.6%) of total expenditures allocated for these purposes.

10. Since 1990-91, WTCS districts' operational costs have increased from \$405.2 million to \$678.1 million in 2000-01, an annualized increase of 5.3%. Over the same time, the cost per FTE student has increased from \$6,636 to \$11,354, an annualized increase of 5.5%. Over the past ten years, operational cost increases have exceeded the rate of inflation. According to WTCS Board staff, the growth in operational costs has primarily been the result of increasing compensation and health care costs, increased enrollment, demand for new educational programs and investment in equipment and technology for educational programs that have been developed or expanded over the past ten years.

### **Impact of Proposal**

11. The Governor's proposal would tie the rate of growth in the operational levy to the change in the consumer price index (CPI) as measured by the U.S. Bureau of Labor Statistics between March 31 of the preceding year and the second preceding March 31. The CPI measures changes in prices of all goods and services purchased for consumption by urban households and is widely used as a comparative benchmark of year-to-year increases in expenditures by businesses and government. However, since the CPI is based on consumer consumption, it could be argued that it is not a valid benchmark for a service agency such as the technical college system, whose service population is not fixed and whose costs of providing those services do not mirror those of a household consumer.

12. In 2001-02, the total operating levy for technical college districts is estimated at \$406.5 million. According to February, 2002, data from Standard and Poor's Data Resources, Inc., the rate of inflation from March 31, 2001 to March 31, 2002, is estimated at 1.1%. Therefore, under the Governor's proposal, the operating levy in 2002-03 would increase by approximately \$4.5 million to \$411.0 million. At the same time, the Governor's proposal would reduce total state aid to technical college districts by \$6.1 million. As a result of the Governor's proposal, technical college

districts would face a net revenue loss from the operating levy and state aid of \$1.6 million when comparing 2002-03 with 2001-02.

13. According to executive budget staff, the purpose of the Governor's proposal was to ensure that technical college districts did not pass on proposed reductions to total state aid through increased property tax levies or tuition increases beyond 10% in 2002-03. Under current law, it would be difficult to ensure that technical college districts did not offset reductions to total state aid through property tax or tuition increases. If technical college districts were to offset the proposed reductions to state aid with an increase in the operational levy, the levy would need to increase by approximately 1.5% in 2002-03. If the WTCS Board were to offset the proposed aid reductions with an increase in tuition, tuition revenue would need to increase by 5.1% in 2002-03. However, the Board's action regarding tuition for 2002-03 at its January, 2002, meeting suggests that such an additional increase is unlikely.

14. While limiting the likelihood that technical college districts would offset proposed reductions to state aid, the Governor's proposal would also limit the ability of technical college districts to meet their estimated operating costs for 2002-03. According to WTCS staff, total systemwide operating costs are estimated at \$772.1 million in 2002-03, an increase of approximately 6.5% over the preliminary operating cost estimate of \$725.0 million for 2001-02. The Governor's proposal would result in an estimated \$32.9 million operating cost shortfall for technical college districts in 2002-03 when compared with estimated operational costs.

15. Given total state aid provided to technical college districts under 2001 Act 16 for 2002-03 and the projected increase in district operating costs, the total statewide property tax levy for operations would need to increase to \$437.7 million in 2002-03, a 7.7% increase over the 2001-02 operational levy of \$406.5 million. If districts were to offset the proposed reduction to state aid in addition to anticipated cost increases, the systemwide property tax levy would need to increase from \$406.5 million to \$443.9 million in 2002-03, a 9.2% increase. However, districts at or near the 1.5 mill rate limit may not be able to offset the reductions as well as estimated operational cost increases through the property tax levy.

16. If districts need to raise their operating tax levy in order to fund anticipated operating cost increases, the Governor's proposal includes a provision for holding a referendum. According to executive budget staff, the ability to exceed the proposed levy limits through referenda would provide districts with the ability to meet additional enrollment demand or accommodate increased compensation costs. However, the referenda process would make it difficult for technical college administrators to plan and budget for the upcoming year because of uncertainty regarding referenda approval and scheduling the referenda in time for budgeting and planning the coming academic year.

17. In lieu of increasing operating revenue, the districts would need to reduce projected operating costs to accommodate the \$32.9 million shortfall in projected revenue for 2002-03, compared to current law for that year. In drafting its proposal, the administration did not envision specific cuts at the districts in response to the reduced revenue; instead, it was expected that technical college districts would evaluate expenditures, identify areas where greater efficiency could

be achieved and make changes to how services are delivered. While it is possible that districts could accommodate reduced revenues through reductions to noninstructional expenses, those items' share of total operational costs, as well as certain fixed costs associated with physical plant maintenance and utilities, make it unlikely that reductions could be limited to non-instructional expenses or accommodated completely through efficiency measures.

18. Traditionally, technical college districts experience above average enrollment growth during economic downturns. Enrollment during the recession of the early 1980's increased 23% over four years and during the recession of the early 1990's, enrollment grew 11% over four years. Since 1999-00 technical college enrollment has increased 5.2%, from 55,983 FTE in 1999-00 to a projected enrollment of 61,000 FTE in 2001-02. With the current economic downturn, enrollment is expected to continue increasing in 2002-03 as workers seek retraining or development of new skills.

19. According to executive budget staff, the Governor's levy limit was implemented to ensure that the districts did not compensate for state aid reductions through property tax increases. Prohibiting mill rate increases rather than the levy limit could help districts maintain educational services and increase enrollment, while limiting their ability to pass along reductions to state aid. An operating mill rate limit would prohibit all districts from increasing mill rates in 2002-03 above the 2001-02 rate, unless approved by a referendum, with the limitation that the current 1.5 mill restriction on mill rates could not be exceeded. Current operational and total tax levies and mill rates are shown in Table 2. With an operating mill rate limit, the district operating levy could increase at a rate equivalent to the rate of growth in equalized value, an estimated 7% statewide in 2002. The impact of a rate limit would vary among districts, because the rate of growth in equalized value and operating costs vary among the districts. Districts with value growth that exceeds their operational cost growth would benefit while districts with low value growth or higher operating expenses would still need to reduce operational expenditures in order to accommodate the rate limit.

**TABLE 2**

**Wisconsin Technical College System Board  
Mill Rates and Total Tax Levy  
Fiscal Year 2001-02  
(\$ in Millions)**

<u>District</u>	<u>Operational</u>		<u>Total*</u>	
	<u>Levy</u>	<u>Mill Rate</u>	<u>Levy</u>	<u>Mill Rate</u>
Blackhawk	\$11.31	1.37	\$13.94	1.69
Chippewa Valley	19.18	1.43	24.40	1.82
Fox Valley	31.09	1.42	41.47	1.88
Gateway	35.92	1.43	40.57	1.62
Lakeshore	13.07	1.36	16.11	1.67
Madison Area	52.98	1.26	59.24	1.41
Mid-State	11.19	1.37	13.43	1.65
Milwaukee Area	74.94	1.50	101.25	2.03
Moraine Park	19.32	1.22	24.85	1.56
Nicolet	12.26	1.18	13.74	1.32
Northcentral	14.55	1.39	19.78	1.88
Northeast WI	29.82	1.23	39.46	1.62
Southwest WI	7.48	1.50	8.89	1.78
Waukesha Co	38.15	1.20	46.19	1.46
Western WI	14.94	1.50	23.96	2.41
WI Indianhead	<u>20.34</u>	1.09	<u>24.32</u>	1.30
Statewide	\$406.55	1.33	\$511.61	1.68

\* Total levy including debt service

20. Given the proposed reductions to general aid and other categorical aids funded with general purpose revenue, it could be argued that districts should be able to utilize their current law authority to fund their operational expenses and maintain their educational services through increases, when necessary, in the property tax levy or higher mill rates. Under current law, the technical college district property tax rate for all purposes except debt service is limited to 1.5 mills of the district's equalized property valuation. The current law provision would continue to give districts some flexibility in accommodating increased costs and anticipated enrollment growth as well as the option to offset the proposed reductions to total state aid. However, districts at the mill rate maximum would continue to face the pressure of accommodating increased costs and reduced state aid solely through the growth in their property tax base.

## ALTERNATIVES TO BILL

### A. Mill Rate and Levy Limit

1. Approve the Governor's recommendation to limit the amount of property taxes levied by each WTCS district for all purposes except debt service to the rate of change in the consumer price index or the amount that would be generated by a 1.5 mill rate, whichever is less. Permit the district boards to exceed the limit if approved through a referendum, except that the 1.5 mill rate limit could not be exceeded.

2. Modify the Governor's recommendation to apply only to 2002-03.

3. Delete the Governor's recommendation and, instead, limit the operational mill rate for technical college districts in 2002-03 so that it could not exceed the 2001-02 operational mill rate. Permit the district boards to exceed the 2001-02 operational mill rate, provided the rate does not exceed 1.5 mills, if approved through a referendum.

4. Maintain current law.

### B. Limitation on Increase in Fees

1. Approve the Governor's recommendation to specify that program fees charged students in 2002-03 could not exceed the fees charged students in 2001-02 by more than 10%.

2. Maintain current law.

Prepared by: John Stott

# Public Instruction

(LFB Summary of the Governor's Budget Reform Bill: Page 71)

## LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1	Debt Levy Limit for Calculation of Partial School Revenues (Paper #1220)
2	Primary Guaranteed Valuation (Paper #1221)
3	General School Aids Funding Determination (Paper #1222)
4	Revenue Limit Per Pupil Annual Increase (Paper #1223)
5	High School Graduation Test (Paper #1224)
6	3.5% and 5.0% Budget Reductions (see Paper #1120)
8	Program Revenue Lapses (see Paper #1121)
-	State Support of K-12 Public Education (Paper #1225)

## LFB Summary Items for Which No Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
7	5.0% Budget Reductions
9	Fuel and Utilities Lapse Estimate
10	Milwaukee Public Museum

remove this item - over  
all



**AGENCY:** DPI

**Paper #:** 1220

**ISSUE:** Debt Levy Limit for Calculation of Partial School Revenues

**ALTERNATIVE: 4:** Maintain Current Law

**SUMMARY:** Gov. wants to limit amount of referenda-approved debt levy included in the definition of partial school revenues beginning in 02-03 to the lesser of the actual referenda-approved debt levy or \$490 million which is a \$20 million reduction. However, this is NOT truly a \$20,000,000 hit. Local school districts can (by a 2/3 vote) vote to do it anyway. This is connected to paper #1223...

You have consistently stated that you will maintain 2/3 school construction costs.

**BY:** Tanya



## Legislative Fiscal Bureau

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

March 4, 2002

Joint Committee on Finance

Paper #1220

### Debt Levy Limit for Calculation of Partial School Revenues (DPI)

[LFB Summary of the Governor's Budget Reform Bill: Page 71, #1]

#### CURRENT LAW

The state has a goal of funding two-thirds of K-12 partial school revenues. For the purposes of the two-thirds funding goal, state funding is defined as the sum of state general and categorical school aids, the school levy tax credit and the general program operations appropriation for the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired. With certain exceptions, partial school revenues is defined as the sum of state school aids and property taxes levied for school districts. The two-thirds funding commitment is calculated 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 cost and equalized value.

Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid and property taxes is restricted. A school district can, however, exceed its revenue limit by receiving voter approval at a referendum. These referenda can approve debt, or recurring or nonrecurring operating revenues. Property tax levies for the referenda-approved 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.

#### GOVERNOR

Limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$490 million. Set the general school aids funding level at \$4,200,945,900

in 2002-03, which is a reduction of \$20,000,000 compared to the Act 16 general school aids appropriation for 2002-03.

## DISCUSSION POINTS

1. 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. State aid related to the debt levy is not funded from a separate appropriation, but is one of the factors that determines how much funding is appropriated in the overall general school aids appropriation, which is funded at \$4.05 billion in 2001-02. The following table outlines the portion of state support for K-12 education due to referenda-approved debt.

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

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
Estimated total Levy for Referenda-Approved Debt	\$245.5	\$323.8	\$346.0	\$385.0	\$407.0	\$448.9	\$476.7
State Support of Referenda-Approved Debt Under Two-Thirds Funding	N.A.	\$215.9	\$230.7	\$256.7	\$271.3	\$299.3	\$317.8
Total State Support for K-12 Education	\$3,024.5	\$4,035.4	\$4,274.0	\$4,458.7	\$4,695.6	\$4,932.6	\$5,082.6
Aid for Referenda-Approved Debt as % of State Support	N.A.	5.35%	5.40%	5.76%	5.78%	6.07%	6.25%

As shown in the table, the amount of referenda-approved debt has been steadily increasing over the past three biennia. State aid for referenda-approved debt as a percent of total state support of K-12 education has increased by nearly one percentage point since 1996-97, the first year the state provided two-thirds support of K-12 education. It should be noted that the percentage is influenced not only by the level of referenda-approved debt, but also by the level of state support for K-12 education. Minor changes to the two-thirds commitment since the 1995-97 budget act, such as moving from "66.7%" to "two-thirds" funding of partial school revenues or inclusion of the general program operations appropriation for the state residential schools in the definition of state support, tend to slightly inflate the percentage that state support of referenda-approved debt is of overall state support.

2. When local voters approve a school district referendum to issue long-term debt for school construction projects, this affects school finance on both the statewide level and the school district level. For example, assuming a 20-year even payment schedule and a 5% interest rate, if a school district passed a \$15 million referendum in the fall of 2001 and issued the bonds in the spring of 2002, the district would incur approximately \$1.2 million in debt service costs annually beginning in 2002-03, depending on the structure of the bond issue.

On a statewide level, under current law, the resulting referenda debt levy would increase partial school revenues by \$1.2 million in 2002-03, which would increase the cost of two-thirds funding of partial school revenues by \$800,000 in 2002-03. This increase in state general aid would then be distributed among the 426 school districts through the equalization aid formula. Most school districts would gain state aid as a result of this increase in funding, while some would be unaffected. No school district would lose aid as a result of this increase in general school aids funding.

On a school district level, the district would be required to levy the for the full \$1.2 million in 2002-03 because equalization aid is based on prior year costs. In 2003-04, the amount of equalization aid that the school district would receive is dependent on how the school district fares under the equalization aid formula, which is based on a district's shared cost and property valuation per member. The district does not automatically see an aid increase equal to the amount of additional debt service incurred as a result of the referendum, as its aid could remain unchanged or even be reduced when its shared costs increase.

3. Under the Governor's proposal, the state would establish a cap on the total amount of referenda-approved debt that it would count under the two-thirds funding commitment. If, in the aggregate, school districts exceed this limit, then school districts generally would see a proportional reduction in state support for all school district costs compared to current law. Referenda-approved debt would be treated the same under the cap regardless of whether a particular referendum passed before or after the effective date of the bill. Debt service costs for all districts would continue to be aided as shared costs under the equalization aid formula as under current law.

4. Under the Governor's recommendation, if the debt levy increased to \$520 million as estimated under Act 16, a debt levy of \$490 million would be used rather than that actual debt levy amount. In this case, the state's definition of partial school revenues would be \$30 million less than actual partial school revenues, and therefore the amount of funding necessary to fund two-thirds would be \$20 million lower. However, under current law revenue limits, any aid loss for school districts under this proposal could be made up through the property tax levy. As a result, the statewide school property tax levy could be \$20 million higher than under current law.

5. Another provision of the bill would specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210, unless a school board adopts a resolution to that effect by a two-thirds vote of the members-elect rather, in which case the adjustment would be an estimated \$230.67 as under current law. To the extent that districts with an aid loss under the debt levy provision would be subject to the \$210 per pupil adjustment, rather than an estimated \$230.67 under current law, this would mitigate increases in the local levy.

6. Proponents of the debt levy limit proposal argue that the increased level of state support for school districts under the state's two-thirds funding commitment has provided school districts with added incentive to seek voter approval for bonding referenda. As a result, the amount of resources being devoted to construction and other capital projects has been growing at a disproportionate rate since the start of two-thirds funding. Placing a cap on the debt levy recognized for two-thirds funding purposes would recognize the recent increase in funding for capital projects,

but ensure that additional state financial support for such projects in the aggregate in the future would be more limited.

7. Rather than capping the debt levy limit at \$490 million, the Committee could set the limit at different levels. If the amount of funding provided for the debt levy prior to the start of state two-thirds funding is deemed the appropriate level for state support of such projects, the debt levy limit could be set at \$246 million, the level of the debt levy in 1995-96. Under this alternative, partial school revenues would be reduced by \$274 million in 2002-03, meaning that general school aids would be reduced by \$162.7 million compared to the bill to adjust two-thirds funding. Under revenue limits, the aid loss for school districts under this alternative could be made up through the property tax levy; as a result, the statewide school property tax levy could be \$162.7 million higher than under the bill.

8. One could also argue that school district bonding is more appropriately a local decision and should be funded at the local level, while state funding should be more focused on support for school district operations. In this case, the Committee could choose to completely exclude the referenda-approved debt levy from partial school revenues. Under this alternative, partial school revenues would be reduced by \$520 million in 2002-03, meaning that general school aids would be reduced \$326.7 million compared to the bill to adjust two-thirds funding. Under revenue limits, the aid loss for school districts under this alternative could be made up through the property tax levy; as a result, the statewide school property tax levy could be \$326.7 million higher than under the bill.

9. Others argue that because referenda-approved debt and debt service costs make up a relatively small percentage of total partial school revenues, the current methodology for supporting debt levies and debt service costs should be maintained. Because other school district educational revenues are not treated differently, it is inconsistent to treat debt levy revenues differently, especially after the bond issue has received approval by a majority of voters in a school district. They argue that voters may approve a bonding 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 as with other educational revenues. 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.

## **ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$490 million. Reduce general school aids by \$20,000,000 in 2002-03 to adjust two-thirds funding to be consistent with this change.

2. Limit the amount of referenda-approved school district debt levy included in the definition of partial school revenues, beginning in 2002-03, to the lesser of the actual referenda-approved debt levy or \$246 million. Reduce general school aids by an additional \$162,666,700 in

2002-03 to adjust two-thirds funding to be consistent with this change.

<b>Alternative 2</b>	<b>GPR</b>
2001-03 FUNDING	- \$162,666,700

3. Exclude the referenda-approved school district debt levy from the definition of partial school revenues, beginning in 2002-03. Reduce general school aids by an additional \$326,666,700 in 2002-03 to adjust two-thirds funding to be consistent with this change.

<b>Alternative 3</b>	<b>GPR</b>
2001-03 FUNDING	- \$326,666,700

4. Maintain current law.

<b>Alternative 4</b>	<b>GPR</b>
2001-03 FUNDING	\$20,000,000

Prepared by: Russ Kava

MO#			
BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
ROSENZWEIG	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_

*Gov*

**AGENCY:** DPI

**Paper #:** 1221

**ISSUE:** Primary Guaranteed Valuation

**ALTERNATIVE:**

**1:** Adopt Gov's recs.: 374 districts would get more \$, 28 a little less, and 24 would remain unchanged.

However: DPI would prefer Alt. 2 since the change is so minor anyway.

**SUMMARY:** Gov. wants to set the primary guaranteed valuation per member under the equalization aid formula equal to \$1.93 million beginning in 02-03. Says the purpose is to minimize differences between districts.

**BY:** Tanya



## Legislative Fiscal Bureau

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March 4, 2002

Joint Committee on Finance

Paper #1221

### Primary Guaranteed Valuation (DPI)

[LFB Governor's 2001-03 Budget Reform Bill Summary: Page 71, #2]

#### CURRENT LAW

There are three guaranteed valuations used in the equalization formula that are applied to three different shared cost levels. Each district receives a distinct aid amount and percentage of state support for each tier of the formula, based on its shared costs eligible for aid on that tier.

*Primary tier.* 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 aids generated at the secondary or tertiary aid levels.

*Secondary tier.* 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 \$6,848 per member in 2001-02. The secondary cost ceiling is set equal to 90% of the prior year statewide shared cost per member. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is placed at a level that generates equalization aid entitlements that are equal to the total amount of funding available for distribution. In 2001-02, the secondary guaranteed valuation is \$903,569 per member.

*Tertiary tier.* The third tier is for shared costs that exceed the secondary cost ceiling of \$6,848 per member. State aid on these tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$325,154 in 2001-02. 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.

## **GOVERNOR**

Set the primary guaranteed valuation per member under the equalization aid formula equal to \$1,930,000, beginning in 2002-03.

## **DISCUSSION POINTS**

1. 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.

2. The current primary tier of the equalization aid formula was established in the 1995-97 budget act, as part of modifications to the general school aids distribution related to the transition to two-thirds funding. In that budget, the primary guarantee was set at \$2,000,000 per member and the primary cost ceiling was set at \$1,000 per member, and both have remained unchanged since.

3. Administration officials indicate that the proposal to reduce the primary guaranteed valuation by 3.5% was intended to treat municipalities and school districts similarly under the bill. The administration estimates that the reductions in shared revenue under the bill would reduce municipal revenues by 3.5% in calendar year 2002. The 3.5% reduction in the primary guarantee uses the same percentage change. However, no change to funding for general school aids attributable to this change would be made; instead, this proposed modification would result in a slight redistribution of aid.

4. There are five factors used in the computation of equalization aid: membership, shared cost, equalized property valuation, the state's guaranteed valuations and the total amount of funding available for distribution. It is not possible to make accurate projections of these variables for a future school year, or to make accurate projections of the distributional effect of the proposed change in the primary guaranteed valuation. However, the distributional effect of changing the primary guarantee can be illustrated with the data used to calculate equalization aid in 2001-02, the most recent year for which data is available, as if the change had been in effect in that year.

5. If the other factors are held constant, a change in one of the guaranteed valuations redistributes aid under the formula. Had the primary guarantee been set at \$1,930,000 in 2001-02,

approximately \$330,000 in aid would have been redistributed among school districts. Because the state would guarantee a lesser amount at the primary level, the secondary guarantee would have risen (to approximately \$906,300) to distribute all of the available funding in the general school aids appropriation. A total of 374 districts would have received more aid under the Governor's proposal in 2001-02 than under current law, while 28 districts would have received less aid under the Governor's proposal than under current law. Aid payments to 24 districts would have been unchanged.

6. Among the districts that would have received more aid under the Governor's proposal in 2001-02 than under current law, no district would have gained more than 0.09% of their current law aid payment. The 24 districts with unchanged aid received special adjustment aid in 2001-02. Because special adjustment aid is a hold-harmless payment that ensures that districts receive at least 85% of their prior year general school aids payment, the proposed change in the primary guarantee would not have affected eligibility for these payments.

7. Two types of districts would have lost aid under the Governor's proposal as compared to current law. Seven districts that receive only primary and secondary aid under the equalization aid formula would have lost a small amount of aid (less than 0.1% each) because their shared costs are so low (less than \$6,450 per member) that the loss of aid at the primary level is not made up for by the additional aid at the secondary level. The other 21 districts that lose aid receive primary aid only under the equalization aid formula as a result of relatively high per member shared costs and property values. Thus, these districts would only have been affected by the reduced primary guarantee and not the increased secondary guarantee. Of these 21 districts, 18 would have lost from between 0.1% and 3.5% of their current law aid payment, and three districts would have lost more than 3.5% of their current law aid payment had the Governor's proposal been in effect in 2001-02, with the largest reduction being 10.0%.

8. Under current law revenue limits, any aid loss for school districts under this proposal could be made up for through the property tax levy. Another provision of the bill would specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210, unless a school board adopts a resolution to that effect by a two-thirds vote of the members-elect rather, in which case the adjustment would be an estimated \$230.67. To the extent districts with an aid loss would choose to be subject to the \$210 per pupil adjustment, this would mitigate increases in the local levy.

9. Given that the proposal reduces aid to some relatively higher-value, higher-cost districts, it could be argued that it enhances equalization under the formula. However, the proposal also reduces aid for some relatively low-value, low-cost districts, which runs counter to equalization. Also, since over 95 percent of school districts in the state would have realized an aid change of less than 0.1% with a total aid redistribution of only 0.008% (\$330,000) of general school aid funding (\$4.05 billion) had the Governor's plan been in effect in 2001-02, it could be argued that the effect is so small that it is not necessary to adopt the Governor's recommendation.

## ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to set the primary guaranteed valuation per member under the equalization aid formula equal to \$1,930,000, beginning in 2002-03.
2. Maintain current law.

Prepared by: Russ Kava

*adopt gov*

**AGENCY:** DPI

**Paper #:** 1222

**ISSUE:** General School Aids Funding Determination

**ALTERNATIVE:** DPI is comfortable with **Alt. 1**(Gov.) **or Alt. 2** (Gov. w/ minor modification)

**SUMMARY:** Gov. wants to specify that by June 30, 2004 and biennially by June 30 thereafter, JFC to determine the amount appropriated for general school aids for the following year rather than every year as it is now.

**BY:** Tanya



## Legislative Fiscal Bureau

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March 4, 2002

Joint Committee on Finance

Paper #1222

### General School Aids Funding Determination (DPI)

[LFB Summary of the Governor's Budget Reform Bill: Page 72, #3]

#### CURRENT LAW

For purposes of the two-thirds funding goal, state funding is defined as the sum of state general and categorical school aids, the school levy tax credit and the general program operations appropriation for the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired. With certain exceptions, partial school revenues is defined as the sum of state school aids and property taxes levied for school districts. Under current law, each year by May 15, the Departments of Public Instruction and Administration and the Legislative Fiscal Bureau must jointly certify to the Joint Committee on Finance an estimate of the amount of funding necessary to appropriate for general school aids which, in combination with the amounts provided in the other state aid, levy credit and operations appropriations, would achieve the two-thirds funding level in the following school year. Annually, by June 30 the Joint Committee on Finance must determine the amount to be appropriated for general school aids in the following school year. The statutory language for the general school aids appropriation states that the amount appropriated is a sum sufficient equal to the amount determined by Joint Finance under the certification process.

#### GOVERNOR

Specify that, by June 30, 2004, and biennially by June 30 thereafter, the Joint Committee on Finance determine the amount of funding appropriated for general school aids for the following year. Specify that the general school aids appropriation for the 2004-05 fiscal year would be a sum sufficient equal to the amount determined by Joint Finance.

The bill would specifically set the general school aids funding level for 2002-03 statutorily and state that the funding for 2004-05 would be set under the current law process. DOA staff indicate that the intent for 2003-04 and subsequent even-numbered fiscal years would

be to have the Legislature establish the funding level in the budget bill, while funding for 2004-05 and subsequent odd-numbered fiscal years would be established under the current law determination process.

## **DISCUSSION POINTS**

1. In a biennial budget year, legislative consideration of statutory changes to general and categorical school aid funding, revenue limits and other K-12 school finance provisions can complicate the current law process for setting the general school aids funding level. In 1997, the Joint Committee on Finance determined a general school aids funding amount prior to the statutory June 30 deadline, but the appropriation was subsequently set at a different amount statutorily to reflect the actions of the Legislature in the budget bill. In 1999, the Committee determined a general school aids funding amount after the June 30 deadline based on the actions of each house on the budget bill, and that amount was subsequently set in statute in the budget bill. In 2001, the Committee determined a general school aids funding amount after the June 30 deadline based on the amount appropriated in the budget bill, as affected by the Governor's vetoes.

2. The Governor's recommendation is intended to address the complications of setting the general school aids funding level in a budget year. To clarify the administration's intent, the Committee could specify that, beginning in 2003-04 and in every even-numbered fiscal year thereafter, the amount appropriated for general school aids would be the amount set by law. Under this alternative, DPI, DOA and LFB would still be required to certify to the Committee an estimate of the amount needed in general school aids for the following school year to achieve two-thirds funding. This estimate could then be used in the Legislature's deliberations on the budget bill, with the final amount appropriated for general school aids equal to the amount set in the budget bill. This approach would also allow the amount to be set by separate legislation, if necessary.

3. Under the bill, the general school aids amount for 2002-03 would be set statutorily and Joint Finance would not have to determine the general school aids amount for that year by June 30, 2002. As drafted, however, the bill would still require DPI, DOA and LFB to certify a general school aids amount by May 15, 2002. If the Committee adopts the provision to set the 2002-03 funding in statute, it could also specify that the three agencies would not be required to make the joint certification this year.

## **ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to specify that, by June 30, 2004, and biennially by June 30 thereafter, the Joint Committee on Finance determine the amount of funding appropriated for general school aids for the following year, and that the general school aids appropriation for the 2004-05 fiscal year would be a sum sufficient equal to the amount determined by Joint Finance.

2. Modify Alternative 1 to also specify that:

a. The general school aids appropriation for the 2003-04 fiscal year, and every even-numbered fiscal year thereafter, would be a sum sufficient equal to the amount set by law, and clarify that the 2004-05 process would apply to that year and every odd-numbered fiscal year thereafter.

b. The May 15 certification requirement for DPI, DOA and LFB would not apply in 2002.

3. Maintain current law.

Prepared by: Russ Kava

MO# 2ab

① BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
ROSENZWEIG	Y	N	A
② GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS \_\_\_\_\_

**AGENCY:** DPI

**Paper #:** 1223

**ISSUE:** Revenue Limit Per Pupil Annual Increase

**ALTERNATIVE:**

**A1:** Approve Gov's rec. (OK w/ WEAC because of the local relief valve)

**NOT A2**

**A3:** maintain current law: ideal but only if there's a 9<sup>th</sup> vote to pass

**AND**

**B1:** specify that the per pupil adjustment for the choice and charter program be equal to the per pupil adjustment taken by MPS

**NOT 2:** Set Choice/Charter at \$210: picking a fight w/ voucher folks (WEAC doesn't want)

**B3:** Maintain current law: ok w/ DPI and WEAC

**SUMMARY:** Gov. wants to specify that the per pupil adjustment under revenue limits for 02-03 is \$210, unless a school board decides (by 2/3 vote) to override it. The current rate is \$226.68.

**BY:** Tanya





## Legislative Fiscal Bureau

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March 4, 2002

Joint Committee on Finance

Paper #1223

### Revenue Limit Per Pupil Annual Increase (DPI)

[LFB Governor's 2001-03 Budget Reform Bill Summary: Page 72, #4]

#### CURRENT LAW

School district revenue limits restrict the amount of revenues that school districts can obtain through the combination of general school aids, computer aid and the property tax levy. 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, less the district's computer aid eligibility, determines the maximum amount of revenue that the district is allowed to raise through the property tax levy. Actual general school aids, computer aid and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year.

A three-year rolling average of a school district's pupil enrollment is used to determine the allowable revenue increase under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, the average of the 1998, 1999 and 2000 September memberships was used to calculate the 2000-01 base year revenues per pupil. Then, the average of the 1999, 2000 and 2001 September memberships was used to determine the allowable revenue increase in 2001-02. In addition, beginning with revenue limits calculated for the 1998-99 school year, revenue limit enrollment includes 20% of summer school full-time equivalent (FTE) enrollment for the 1998-99 and 1999-00 school years. Beginning with revenue limits calculated for the 2000-01 school year, revenue limit enrollment includes 40% of summer school full-time equivalent (FTE) enrollment for the 2000-01 school year and each school year thereafter.

A per pupil revenue increase is added to the base revenue per pupil to determine an allowable per pupil revenue increase. In 2001-02, the per pupil increase is \$226.68. The per

pupil adjustment amount is indexed for inflation, by multiplying the prior year dollar amount by the percentage change in the consumer price index between the preceding March and the second preceding March.

The per pupil adjustment made to school district revenue limits is also the adjustment that is made each year to the per pupil payment amounts under the Milwaukee parental choice program and the Milwaukee charter school program. In 2001-02, the per pupil payment under the choice program is \$5,553, while the per pupil payment under the charter program is \$6,721. For the choice program, general school aids for MPS are reduced by an amount equal to 45% of the estimated program cost, with the amount levied by MPS to offset the reduction not counted in partial school revenues. For the charter program, general school aids for all school districts are reduced in total by an amount equal the estimated payments under the program. Under revenue limits, school districts may levy property taxes to make up for the amount of revenue lost due to these aid reductions. Because this property tax levy is included in partial school revenues under two-thirds funding, total funding for general school aids is increased by two-thirds of the charter amount, which partially offsets the statewide reduction amount.

## **GOVERNOR**

Specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210. Provide that this adjustment would not apply if a school board adopts a resolution to that effect by a two-thirds vote of the members-elect. Require DPI to encourage school districts to accommodate the reduction in the revenue limit increase without negatively affecting their instructional programs and to provide technical assistance to school districts for that purpose. Provide that for 2003-04 revenue limits, the per pupil adjustment for all districts would be the current law amount adjusted for inflation.

## **DISCUSSION POINTS**

1. The annual per pupil allowable revenue increase under revenue limits has undergone several modifications since the onset of revenue limits in 1993-94. Prior to 1995-96, the allowable per pupil revenue increase could not exceed a flat dollar amount or the rate of inflation, whichever resulted in the higher revenue amount for the district. The increase was set at \$200 in 1995-96 and \$206 in 1996-97 and the flat dollar amount was no longer adjusted for inflation and a school district no longer had the option to use the inflation rate to determine its maximum allowable increase. Under 1997 Act 27, the per pupil increase was fixed at \$206 in 1997-98 and has since been adjusted annually for inflation. The following table provides a history of the per pupil revenue limit adjustment amount.

## Allowable Revenue Increase

	<u>Per Pupil</u>	<u>Inflation Rate</u>
1993-94	\$190.00	3.2%
1994-95	194.37	2.3
1995-96	200.00	N.A.
1996-97	206.00	N.A.
1997-98	206.00	N.A.
1998-99	208.88	N.A.
1999-00	212.43	N.A.
2000-01	220.29	N.A.
2001-02	226.68	N.A.

2. Limiting all school districts to the same flat per pupil dollar increase in allowable revenues will, over time, reduce the disparity in revenue per pupil among districts in the state on a percentage basis as compared to providing an inflationary increase. A \$226.68 increase per pupil, for example, represents a greater increase as a percent of the base for a district with lower allowable revenues per pupil than for a district with higher revenues per pupil. The inflationary increase to the flat dollar amount enhances this reduction in the disparity in revenue per pupil among school districts.

3. The inflation rate from March, 2001, to March, 2002, is estimated to be 1.8%, using the January forecast of the economy prepared by Standard and Poor's Data Resources, Inc. although the February forecast indicates it could be as low as 1.1%. Using the 1.8% figure, under current law, the annual per pupil revenue limit adjustment would increase from \$226.68 in 2001-02 to an estimated \$230.67 in 2002-03.

4. In 2002-03, it is estimated that a \$230.67 per pupil increase would provide a statewide revenue per pupil increase of approximately 3.0%, ranging from an increase of 1.8% for the highest revenue district to a 3.5% increase for the lowest revenue district, when districts eligible for a low revenue adjustment are excluded. If all districts in the state were subject to a \$210 per pupil increase in 2002-03, it would provide an estimated statewide per pupil revenue increase of 2.8%, ranging from an increase of 1.6% for the highest revenue district to a 3.1% increase for the lowest revenue district.

5. Administration officials indicate that this provision was included in the bill to address the potential increase in the statewide school property tax levy resulting from a general school aids provision of the bill that would first be effective in 2002-03. Under this provision, a limit of \$490 million on the amount of school district debt levy that is recognized for the calculation of partial school revenues would be established, which is estimated to reduce partial school revenues by \$30 million, resulting in a statewide estimated general school aid reduction of \$20 million. Under current law revenue limits, any aid loss by school districts could be made up through the property tax levy. To the extent districts with an aid loss would be subject to the \$210 per pupil adjustment, this would mitigate any increases in the local levy resulting from the other

provisions of the bill.

6. Under the bill, the general school aids funding level is set statutorily at \$4.201 billion, consistent with the provisions of the bill affecting partial school revenues. Administration officials indicate that no estimate of the number of school districts that would be subject to the \$210 per pupil adjustment in 2002-03 was included in the estimate of the general school aids amount needed to maintain two-thirds funding. As a result, to the extent that districts would be subject to the \$210 per pupil adjustment, the state would likely be providing a level of funding greater than two-thirds of partial school revenues, resulting in a statewide reduction in the property tax levy.

7. During public hearings on the budget and budget adjustment bills for the 2001-03 biennium, the Committee heard testimony from various witnesses on the effect of revenue limits on school district operations. This testimony generally indicated that revenue limits are having an adverse effect on the ability of school districts to maintain ongoing educational programs and to respond to fluctuations in costs that are outside of a district's control. Given the concern that has been voiced about the impact of revenue limits on school district operations, one could argue that, even with the two-thirds requirement for a vote by the school board, most districts would opt for the current law adjustment rather than the \$210 option under the bill. If this were the case, there would be little effect on the statewide school levy.

8. To better ensure that the general school aids provisions of the bill would not have as great an impact on the school district levy, the Committee could choose to set the per pupil adjustment in 2002-03 at \$210. If all districts in the state were subject to the \$210 per pupil adjustment, it is estimated that partial school revenues would be reduced by \$17.9 million in 2002-03 compared to current law. Thus, the cost of funding two-thirds of partial school revenues would be reduced by \$11.9 million in 2002-03.

9. If the per pupil payment were set at \$210, the Committee could set the 2003-04 adjustment to be \$210 adjusted for inflation. Having the adjustment start from the lower base would reduce state general fund expenditures on two-thirds funding on an ongoing basis in the future. However, starting from the lower base would also restrict total school district resources in future years.

10. It is unclear under the bill how the per pupil adjustment provisions would apply to the choice and charter programs. If the Committee adopts the Governor's recommendation with respect to the \$210 per pupil adjustment and the school board override, the treatment of choice and charter schools should be clarified. The Committee could choose to maintain the current law adjustment, provide a \$210 adjustment or specify that the adjustment for choice and charter schools be equal to the adjustment taken by the Milwaukee Public Schools.

11. If the per pupil adjustment would be limited to \$210 for choice and charter schools, choice program expenditures would be reduced by \$244,000. The 45% lapse from MPS general school aids would be reduced by \$110,000, resulting in a net GPR reduction related to the choice program of \$134,000. Charter program expenditures would be reduced by \$57,000, with the corresponding lapse from statewide general school aids reduced by an equal amount. General

school aids funding would be reduced by \$38,000 as a result of the reduced lapse and levy offset. The net fiscal effect of limiting per pupil adjustment to \$210 for choice and charter schools would be a GPR reduction of \$172,000.

## ALTERNATIVES TO BILL

### A. Public School Revenue Limit Adjustment

1. Approve the Governor's recommendation to set the per pupil adjustment under revenue limits for 2002-03 equal \$210, but provide that the \$210 adjustment would not apply if a school board adopts a resolution to that effect by a two-thirds vote of the members-elect. Specify that the per pupil adjustment for 2003-04 be calculated using the amount districts would have received under current law in 2002-03 (an estimated \$230.67) plus the inflation adjustment.

2. Set the per pupil adjustment under revenue limits for 2002-03 equal \$210. Delete \$11.9 million in 2002-03 in general school aids in order to adjust two-thirds funding of partial school revenues. Under this alternative, the per pupil adjustment for 2003-04 would be calculated using \$210 plus the inflation adjustment.

<u>Alternative 2</u>	<u>GPR</u>
2001-03 FUNDING	- \$11,900,000

3. Maintain current law.

### B. Choice and Charter Program Adjustment

1. In addition to Alternative A1, specify that the per pupil adjustment for the choice and charter program be equal to the per pupil adjustment taken by Milwaukee Public Schools.

2. Set the per pupil adjustment for the choice and charter programs equal to \$210. Delete \$339,000 (\$244,000 from the choice program, \$57,000 from the charter program and \$38,000 from general school aids) and reduce estimated lapses by \$167,000 (\$110,000 for the choice program and \$57,000 for the charter program).

<u>Alternative 3</u>	<u>GPR</u>
2001-03 FUNDING	- \$339,000
2001-03 LAPSE	- \$167,000
2001-03 NET CHANGE	- \$172,000

3. Maintain current law (choice and charter per pupil payments would be adjusted by an estimated \$230.67).

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*600  
previews*

② BURKE	Y	N	A
① DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
ROSENZWEIG	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

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