Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **03-0467/1**	Introduction Number **AB-272**

Subject

School finance proposal

Fiscal Effect

State:
☐ No State Fiscal Effect
☒ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☒ Create New Appropriations
☒ Increase Existing Revenues
☐ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☒ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☒ School Districts ☐ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☐ PRO ☐ PRS ☒ SEG ☐ SEGS

Affected Ch. 20 Appropriations
20.255(2)(ac), 20.255(2)(t)

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

DPI 6/27/2003

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Assumptions Used in Arriving at Fiscal Estimate

Beginning in the 2004–05 school year, this bill eliminates the current school aid formula. Under the bill, in 2004–05 each school district is paid an amount per pupil that is determined by multiplying the district's prior year educational cost per pupil by the percentage rate that, when applied annually for 20 years, will result in a per pupil payment of $19,000 in the 2023–24 school year. Beginning in the 2005–06 school year, the prior year per pupil payment is increased by the same annual percentage rate. In addition, the bill eliminates most formula–driven categorical aid programs.

Current law limits the increase in the total amount of revenue per pupil that a school district may receive from general school aids and property taxes in a school year. This bill eliminates school district revenue limits beginning in the 2004–05 school year.

The bill creates a School Building Projects Board (SBPB) attached to the Department of Public Instruction (DPI). The bill prohibits a school board from issuing a bond to finance a capital project unless it adopts a resolution to do so by a three–fourths vote. A school board may then apply to the board for state aid for the project. The board provides aid for that portion of the project that it determines satisfies an educational need; the amount of aid is determined by multiplying the cost of the approved portion of the project by the percentage of the school district's costs that would have been paid under the former school aid formula or by 10%, whichever is greater.

The bill also prohibits a school board from levying a tax at a rate that exceeds three mills except to pay the principal of, and interest on, debt that is outstanding on the bill's effective date or unless DPI approves a higher levy rate to deal with an emergency. In addition, a school district may not incur indebtedness after the bill's
effective date in an amount that would require it to levy a tax at a rate greater than
three mills unless DPI approves a higher rate to deal with an emergency. The bill prohibits a school district from using revenue from its property tax levy to fund employee salaries or benefits.

The bill provides that the total amount in a school district's fund balance in any fiscal year may not exceed 18% of the school district's budget in that fiscal year.

With certain exceptions, school districts currently receive 15% of their total school aid entitlement in September, 25% in December, 25% in March, and 35% in June. Beginning in the 2004–05 school year, this bill requires that school aid be distributed in four equal installments. The bill directs DPI to determine the payment schedule.

This bill increases the sales tax and use tax rates from 5% to 7.5% beginning on January 1, 2004. The bill also creates a segregated fund called the public school aid fund, consisting of 41% of all revenue from sales and use taxes. Beginning in the 2004–05 school year, money in that fund is used for state school aid. For school aid in the 2004–05 school year, the bill also transfers $5,300,000,000 from the general fund to the public school aid fund.

Dispute settlement procedures

This bill does all of the following:

1. Under current law, in local government employment other than law enforcement and fire fighting employment, if a dispute relating to the terms of a proposed collective bargaining agreement has not been settled after a reasonable period of negotiation and after mediation by the Wisconsin Employment Relations Commission (WERC), either party, or the parties jointly, may petition WERC to initiate compulsory, final, and binding arbitration with respect to any dispute relating to wages, hours, and conditions of employment. If

WERC determines, after investigation, that an impasse exists and that arbitration is required, WERC must submit to the parties a list of seven arbitrators, from which the parties alternately strike names until one arbitrator is left. As an alternative to a single arbitrator, WERC may provide for an arbitration panel that consists of one person selected by each party and one person selected by WERC. As a further alternative, WERC may also provide a process that allows for a random selection of a single arbitrator from a list of seven names submitted by WERC. Under current law, an arbitrator or arbitration panel must adopt the final offer of one of the parties on all disputed issues, which is then incorporated into the collective bargaining agreement.

Under current law, however, this process does not apply to a dispute over economic issues involving a collective bargaining unit consisting of school district professional employees if WERC determines, subsequent to an investigation, that the employer has submitted a qualified economic offer (QEO). Under current law, a QEO consists of a proposal to maintain the percentage contribution by the employer to the employees' existing fringe benefit costs and the employees' existing fringe benefits and to provide for an annual average salary increase having a cost to the employer at least equal to 2.1% of the existing total compensation and fringe benefit costs for the employees in the collective bargaining unit plus any fringe benefit savings. Fringe benefit savings is that amount, if any, by which 1.7% of the total compensation and fringe benefit costs for all municipal employees in a collective bargaining unit for any 12–month period covered by a proposed collective bargaining agreement exceeds the increased cost required to maintain the percentage contribution by the municipal employer to the municipal employees' existing fringe benefit costs and to maintain all fringe benefits provided to the municipal employees. This bill eliminates the QEO exception from the compulsory, final, and binding arbitration process.

2. Current law provides that in reaching a decision, the arbitrator or arbitration panel must give weight to many factors, including the lawful authority of the municipal employer, the stipulations of the parties, the interest and welfare of the public, and the financial ability of the unit of government to meet the costs of the proposed agreement, comparison of wages, hours, and conditions of employment with those of other public and private sector employees, the cost of living, the overall compensation and benefits that the employees currently receive, and other similar factors. But, under current law, the arbitrator is required to give greater weight to economic conditions in the jurisdiction of the employer and the greatest weight to any state law or directive that places expenditure or revenue limitations on an employer.

This bill eliminates the authorization for the arbitrator or arbitration panel to give any weight to economic conditions in the jurisdiction of the employer or to any state law or directive that places expenditure or revenue limitations on an employer.

3. Under current law, every collective bargaining agreement covering school district professional employees must expire on June 30 of the odd–numbered years. For all other local government employees, the term of a collective bargaining agreement must be two years, except for an initial agreement and except as the parties otherwise agree, and in no case may exceed three years. This bill treats the terms of collective bargaining agreements for school district professional employees the same as those of other local government employees.

4. Finally, under current law, school district professional employees are required to be placed in a collective bargaining unit that is separate from the units of other school district employees. This bill eliminates this requirement.

Income tax credit

This bill creates a refundable individual income tax credit for the sales and use taxes paid by an individual in the taxable year to which the claim relates. The maximum credit that may be claimed each year under the bill is $500, or $250 for each spouse if a married couple files separate tax returns. The amount of credit that may be claimed by a nonresident or part–year resident of this state is modified based on the ratio of the claimant's Wisconsin adjusted gross income (AGI) to his or her federal AGI. Because this individual income tax credit is refundable, if the amount of the credit exceeds the taxpayer's income tax liability, the difference will be refunded to the taxpayer by check.

State Fiscal Effect

The bill would transfer $5,300,000,000 from the general fund to the new public school aid fund in 2004-05. These funds would replace the current General Equalization Aids GPR appropriation and most existing categorical school aids after 2003-04. Because the bill does not delete the related Chapter 20 appropriations, it is assumed that the department would lapse the appropriated amounts at the end of 2004-05 back to the funds or sources from which they are appropriated.

The bill also would require the SBPB to evaluate each building project in the context of the unique educational needs of the individual school districts that would apply for state aid. This legislative requirement cannot be absorbed within current agency staffing levels.

Section 120.02, Wis. Stats., defines school district standards. These 20 standards would provide the framework for DPI to recommend to the SBPB whether or not a particular facility project meets the educational need of the school district. From 1998 through 2002, on average, 55 school construction referenda passed each year totaling $459.5 million. The bill would require an individual analysis of each of these school construction referenda, and not a one-size fits all facility plan review. Based on a review of other state agencies with responsibilities related to facilities plan approval, it is estimated that the following staff would be needed to implement the SBPB: (a) 5.0 FTE school administration consultants; (b) 1.0 FTE program assistant; (c) 1.0 FTE accountant; and (d) 1.0 FTE school administrative director. In summary, it is estimated that 8.0 positions and $725,000 GPR annually would be required to implement the SBPB provisions of the bill.

Local Fiscal Effect

While it is not possible to estimate the fiscal effect of the bill on school districts, it would cause a fundamental shift and reallocation of state school aids to local school districts compared to the current law distribution of general school aid and categorical aids. The following general conditions can be stated:

1. The school aid distribution formula in the bill which proposes to get each school district to a $19,000 per pupil spending level by 2023-24 would result in substantially higher allowable annual percentage aid increases in each of the 20 years for those districts with lower per pupil spending in 2003-04.

2. The elimination of most categorical aids would result in a complete reallocation of those dollars among school districts. Districts with lower current per pupil spending levels would receive a larger proportion of the reallocated categorical aids in the new general aid distribution.

3. In 2002-03, one-fourth (106) of the 426 school districts already levy more than 3 mills for debt service costs. Since the bill places a cap of 3 mills on the school levy except for existing debt, these school districts would likely not be able to levy any additional local funds to support school district costs in the near term.

4. The bill would place an 18% cap on the amount of a school district's fund balance. It is not possible to estimate how much of existing district fund balances would be spent under the provisions of the bill, or how such spending might affect the need or ability of a district to levy up to 3 mills.

Long-Range Fiscal Implications