

**2005 DRAFTING REQUEST**

**Assembly Amendment (AA-ASA1-AB100)**

Received: 06/21/2005

Received By: mlief

Wanted: As time permits

Identical to LRB:

For: David Cullen (608) 267-9836

By/Representing: himself

This file may be shown to any legislator: NO

Drafter: pgrant

May Contact:

Addl. Drafters: mlief

Subject: Education - school finance

Extra Copies:

Submit via email: YES

Requester's email: Rep.Cullen@legis.state.wi.us

Carbon copy (CC:) to:

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**Pre Topic:**

No specific pre topic given

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**Topic:**

Use of reserve funds by school districts

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**Instructions:**

See Attached

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**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	pgrant 06/21/2005	kfollett 06/22/2005		_____			
/1			jfrantze 06/22/2005	_____	mbarman 06/22/2005	mbarman 06/22/2005	

FE Sent For:

<END>

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/?	pgrant	1/1/gf 6/21	J 6/21	<u>mlief</u>			

FE Sent For:

<END>



**DAVID CULLEN**  
**STATE REPRESENTATIVE**

PETER:

I WOULD LIKE TO HAVE THE PROPOSAL DESCRIBED ON PAGE 3 DRAFTED AS AN AMENDMENT WITH ONE CHANGE. YOU'LL NOTICE ON THE ATTACHMENT THAT THE NORTHERN ORANGE SCHOOL DISTRICT IS ELIGIBLE FOR THIS PROGRAM IN THE AMOUNT OF \$1.3 million. IT IS MY UNDERSTANDING THAT THEY QUALIFY BECAUSE THEY HAVE A VIRTUAL CHARTER SCHOOL. I WOULD WANT MY AMENDMENT TO EXCLUDE DISTRICTS THAT QUALIFY FOR THIS PROGRAM BY VIRTUE OF A VIRTUAL CHARTER SCHOOL.

THANKS,

DAVID CULLEN



## Legislative Fiscal Bureau

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

June 3, 2005

TO: Senator Tom Reynolds  
Room 306 South, State Capitol

FROM: Russ Kava, Fiscal Analyst

SUBJECT: Proposal to Exempt Use of Reserve Funds for Unfunded Pension Liability Costs for Certain Negative Tertiary Districts

At your request, this memorandum provides information on a proposal to allow certain school districts to use a specified amount of reserve funds for unfunded pension liability costs without incurring additional negative tertiary aids.

### BACKGROUND

*Revenue Limits.* 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. Actual general aids, computer aid, and property tax revenues received in the prior year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A per pupil revenue limit increase is added to the base revenue per pupil for the current school year. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, transfer of service, and the low-revenue ceiling. The difference between a district's revenue limit and the October 15 general school aid estimate provided by the Department of Public Instruction, less the district's computer aid eligibility, determines the maximum amount of revenue the district is allowed to raise through the property tax levy for these controlled revenues. School property taxes for referenda-approved debt and the community service levy are not subject to revenue limits. In addition, school districts may obtain either recurring or nonrecurring increases to their revenue limits through referendum approval.

*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. The equalization aid formula is calculated using school district membership, shared costs, and equalized valuation data from the prior school

year. For the purpose of determining aid, shared cost is generally defined as the sum of the net cost of a school district's general fund and debt service fund. There are three guaranteed valuations used in the equalization formula that are applied to different expenditure levels. Under the formula, districts with shared costs per pupil above the secondary cost ceiling (\$7,679 in 2004-05) and equalized value per pupil above the statewide average (\$407,263 in 2004-05) generate negative aid as a result of any increase in shared cost.

*Open Enrollment.* Since the 1998-99 school year, a pupil has been able to attend any public school located outside his or her school district of residence under the full-time open enrollment program, if the pupil's parent or guardian complies with certain application dates and procedures. DPI is required to annually determine a per pupil transfer amount under the program equal to the statewide average per pupil school district cost for regular instruction, co-curricular activities, instructional support services and pupil support services in the previous school year. In 2003-04, this amount was \$5,446. A school district's equalization aid is increased or decreased by an amount equal to the per pupil transfer amount multiplied by the school district's net gain or loss of pupils under the open enrollment program.

The resident school district counts the pupil in its membership and includes the costs for state aid purposes. In other words, the resident district receives state aid as though the pupil were enrolled in that school district. State aid adjustments made under the open enrollment program are not considered in determining a school district's revenue limit. Thus, the increase in state aid payments to a school district that has a net gain in pupils is not included in that school district's revenues that are subject to its revenue limit. A school district that experiences a net decrease in equalization aid may not increase its property tax levy to compensate for the state aid loss.

*Fund Balances.* Under the uniform financial fund accounting system prescribed by the Department of Public Instruction, a school district's general fund is used to account for all financial transactions for the district's operations other than those required to be accounted for in other funds. The general fund typically encompasses revenues and expenditures related to the daily operations of the school district. Separate funds are set up for such things as debt service, capital projects, food service, community service, and certain activities funded through categorical aids.

A district fund balance represents the total assets of a fund less its total liabilities. A fund balance can be created or increased when a school district's revenues are greater than its expenses. Fund balances are generally maintained by a district to provide an operating reserve for expenses incurred before the budgeted revenue is received and to pay for unanticipated costs, such as emergency repairs. Fund balances may be treated by districts as either reserved (committed for identified purposes), unreserved and designated (uncommitted funds for which the district has identified tentative uses), or unreserved and undesignated (uncommitted funds for which no specified purpose has been identified).

The assets of a fund are not necessarily cash, and a fund balance may not necessarily represent surplus money. The size of a district's fund balance can be influenced by a variety of

factors, including the district's cash flow, future purchases anticipated by the district, one-time projects being funded by the district, or other contingencies.

## PROPOSAL

Under the proposal, eligibility would be limited to those school districts that had more pupils who transferred into the district than transferred out under the open enrollment program in the prior year. These districts would be eligible to spend a statutorily-determined amount from the district's reserve funds on the balance of the district's unfunded pension liability under the Wisconsin Retirement System or on debt service costs for debt that was issued to refinance the balance of the unfunded pension liability, and these expenditures would not be included in shared costs if the result of excluding these costs would be an increase in equalization aid to the district. Under the proposal, the statutorily-determined amount would equal the difference between the district's allowable revenue per pupil in the prior year under revenue limits and the per pupil transfer amount under open enrollment, times the net number of pupils that transferred into the district.

For example, in 2003-04, the Wauwatosa School District had 426 pupils transfer into the District and 39 transfer out, resulting in net transfers in of 387 pupils. In 2003-04, the District had allowable revenue limit authority of \$8,925 per pupil, while the statewide transfer payment per pupil under open enrollment was \$5,446, for a difference of \$3,479. Thus, under the proposal, Wauwatosa would be able to spend over \$1.3 million (387 x \$3,479) from its reserve funds, if available, on unfunded pension liability costs, if any, without having those expenditures result in the District incurring additional negative tertiary aid.

Had this proposal been in effect for 2004-05, a total of 57 districts would have met the eligibility criteria based on 2003-04 data, and would have been eligible to spend, in total, \$11.5 million in reserve funds, if available, on unfunded pension liability costs, if any, without incurring additional negative tertiary aid. These districts and the estimated amounts for each under the proposal are shown in the attachment. Also shown in the attachment is the ending balance in each district's general fund for 2002-03, the most recent year for which audited data is available, as well as the unfunded pension liability balance the district had with the Wisconsin Retirement System as of December 31, 2004. No data is available on the debt service costs for districts that have refinanced their unfunded pension liability balances.

Under the proposal, equalization aid could be shifted from lower-value to higher-value districts related to these expenditures, if they otherwise would have been made under current law.

I hope this information is helpful. Please contact me if you have further questions.

RK/lah  
Attachment

**ATTACHMENT**

**Eligible Districts Under Proposal to Exempt Use of Reserve Funds  
For Negative Tertiary Districts Had it Been in Effect in 2004-05**

<u>School District</u>	<u>2004-05 Exempt Spending Under Proposal Had It Been in Effect</u>	<u>District General Fund Balance as of June 30, 2003</u>	<u>WRS Unfunded Liability Balance as of December 31, 2004</u>
Arrowhead UHS	\$139,652	\$4,479,128	\$0
Ashwaubenon	317,630	8,277,124	0
Brighton #1	69,027	682,166	0
Bristol #1	113,438	1,721,749	0
Brown Deer	870,352	2,877,602	0
Butternut	4,739	532,435	341,287
Cambridge	45,757	1,213,575	674,695
Cedar Grove-Belgium Area	24,839	1,708,646	0
Cedarburg	111,534	3,965,911	0
Central/Westosha UHS	99,197	3,703,807	886,475
Dover #1	2,311	276,745	52,749
East Troy Community	2,117	1,966,455	1,290,894
Elkhorn Area	68,859	853,703	1,368,559
Erin	57,327	633,456	24,162
Fort Atkinson	75,128	5,900,814	3,264,924
Franklin Public	242,405	5,863,085	2,204,021
Friess Lake	93,478	182,425	95,561
Grafton	16,000	1,752,981	3,771,918
Greendale	1,073,422	3,837,311	0
Greenfield	813,899	3,839,710	0
Hayward Community	57,996	5,255,585	0
Herman #22	24,771	210,666	116,704
Kettle Moraine	211,434	3,471,667	0
Lake Geneva-Genoa UHS	31,959	3,665,900	1,499,155
Lake Holcombe	18,710	923,627	0
Menomonee Falls	409,355	3,694,103	0
Middleton-Cross Plains	43,841	7,181,541	10
Monona Grove	149,292	3,450,290	0
New Auburn	50,175	858,792	0
New Berlin	49,976	5,202,854	10,041,579

<u>School District</u>	<u>2004-05 Exempt Spending Under Proposal Had It Been in Effect</u>	<u>District General Fund Balance as of June 30, 2003</u>	<u>WRS Unfunded Liability Balance as of December 31, 2004</u>
Northern Ozaukee	\$1,343,813	\$763,626	\$1,161,504
Norway J7	52,830	132,621	80,544
Oak Creek-Franklin	13,185	9,738,991	0
Paris J1	56,061	1,249,560	210,348
Park Falls	24,902	1,683,373	1,399,429
Phillips	12,841	1,834,000	1,200,058
Princeton	11,228	254,727	317,389
Randall J1	48,880	854,149	250,629
Reedsburg	36,631	2,493,856	0
River Falls	36,679	5,494,695	0
Saint Croix Falls	2,910	1,847,370	951,760
Saint Francis	864,502	999,177	0
Sauk Prairie	35,990	3,562,169	2,076,278
Shell Lake	73,403	1,516,762	0
Shorewood	748,122	2,364,608	3,375,741
Slinger	100,077	4,241,498	1,265,691
Somerset	80,122	1,181,840	344,220
Southern Door	2,358	2,982,783	0
Turtle Lake	2,915	1,356,700	0
Union Grove UHS	11,421	926,018	806,915
Waunakee Community	29,046	3,650,020	1,379,025
Wauwatosa	1,346,374	22,407,568	0
West Allis	565,951	13,435,398	0
West Bend	66,434	9,167,871	0
Weyerhaeuser Area	30,883	880,718	357,916
Whitefish Bay	260,874	5,352,775	0
Whitnall	332,785	3,000,553	0



2005

Date (time) needed \_\_\_\_\_

LRB b 0621 1 1

BUDGET AMENDMENT

PG+MJC: kjf: \_\_\_\_\_

[Not for compile]

See form AMENDMENTS — COMPONENTS & ITEMS.

ASSEMBLY AMENDMENT  
TO 2005 AB 100

ASA 1

At the locations indicated, amend the bill, as shown by assembly substitute amendment 1 as follows:

#. Page 768, line 16: delete "Shared cost" and substitute "Shared Subject to par. (am), "Shared cost".

#. Page 769, line 3: after that line insert:  
[INS A]

1036  
#. Page 1066, line 2: after that line insert:  
"10f (10am) Reserve funds. The treatment of section 121.07(6)(a) (intro.) and ~~the report and~~

#. Page ..., line ...: ~~creation of section 121.07 (am) of~~ aid  
recreation of section 121.07 (am) of aid  
the statute first applies to state and  
paid to school districts in the  
school year beginning after the  
effective date of this subsection."

(end)

#. Page ..., line ...:

INS A

" SEC. 1897; RC. 121.07 (6) (am) ✓  
sch

(B)

121.07 (6) (am) 1. A school district may

spend the amount determined under

subd. 2. from its reserve fund on the  
balance of its unfunded pension liability

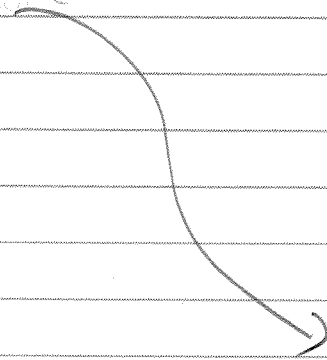
under the Wisconsin retirement system or on  
debt service on debt that was issued to

refinance the balance of the unfunded

pension liability. If it does so, the INSPECT

2. The amount referred to in

subd. 1. is the



SEC. RC; 121.07 (6) (am)  
 121.07 (6) (am) 1. Subject to subd. 2,  
 "cost" excludes an amount equal to the  
 "in" per. (a), "shared"

difference between the school district's allowable  
 revenue per pupil under s. 121.91 and the per  
 transfer  
 pupil amount under s. 118.51, multiplied  
 net  
 by the net number of pupils that transferred  
 to the school district under s. 118.51.

3. Subdivision 1. applies  
 to any school district in which the number  
 of pupils determined under s. 118.51 (16) (a) 1.  
 exceeds the number of pupils determined under  
 s. 118.51 (16) (a) 2., except that  
 subd. 1. does not apply to any

school district that contracts with a charter school  
~~established~~ <sup>118.40</sup> under s. 118.40 <sup>the charter school</sup> if <sup>it</sup> provides instruction  
or  
largely or exclusively by the internet, as determined  
by the department, and if, as a result of  
the charter school contract, the number of pupils  
determined under s. 118.51(16)(a) <sup>1.</sup> exceeds the  
number of pupils ~~as~~ determined ~~under~~ under  
s. 118.51(16)(b)2. <sup>2.</sup> »

END INS A

INSERT to INS A

amount <sup>is</sup> excluded from shared cost

under par. (a) if the result of

excluding the amount <sup>is</sup> an increase

in state aid to the school district

under s. 121.08.