



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #735

### **Revenue Limit Per Pupil Annual Increase (DPI -- Revenue Limits)**

[LFB 2001-03 Budget Summary: Page 533, #1]

#### **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 1997, 1998 and 1999 September memberships was used to calculate the 1999-00 base year revenues per pupil. Then, the average of the 1998, 1999 and 2000 September memberships was used to determine the allowable revenue increase in 2000-01. 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 2000-01, the per pupil increase is \$220.29. 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.

**GOVERNOR**

Delete the inflation adjustment to the per pupil revenue increase amount, beginning in the 2001-02 school year. Provide that the annual per pupil adjustment would remain at the 2000-01 level, which is \$220.29. Specify that the \$220.29 adjustment would also apply to school districts that reorganize. At the time of budget submission, staff at DOA estimated that this provision would reduce the cost of funding two-thirds of partial school revenues by approximately \$3.3 million in 2001-02 and \$10.8 million in 2002-03 compared to estimates of current law.

**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. In 1993-94, the limit was based on \$190 per pupil or an inflation rate of 3.2%. Beginning in 1994-95, the \$190 per pupil amount was adjusted by the rate of inflation, so that the limit was based on \$194.37 per pupil or an inflation rate of 2.3%. 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 and shows the proposed amounts under the Governor’s recommendation in SB 55.

**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.                  |
| <u>SB 55</u> |                  |                       |
| 2001-02      | 220.29           | N.A.                  |
| 2002-03      | 220.29           | N.A.                  |

2. The flat per pupil dollar increase, rather than an inflationary per pupil increase, has been maintained since 1995-96 because limiting all school districts to the same per pupil increase in allowable revenues will, over time, reduce the disparity in revenue per pupil among districts in the state on a percentage basis. A \$220.29 increase 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. Under 1997 Act 27, the Legislature established an inflationary increase to the flat dollar amount as a method for enhancing this reduction in the disparity in revenue per pupil among school districts.

3. The Department of Revenue indicates that the actual March, 2000, to March, 2001, inflation increase was 2.9%. The inflation rate from March, 2001, to March, 2002, is estimated to be 2.4%. Based on these figures, under current law, the annual per pupil revenue limit increase would rise from \$220.29 in 2000-01 to \$226.68 in 2001-02 and \$232.12 in 2002-03.

4. Based on more recent enrollment and base revenue projections, in 2001-02, it is estimated that a \$226.68 per pupil increase would provide a statewide per pupil revenue increase of approximately 3.08%, ranging from a per pupil increase of 1.76% for the highest revenue district to a 3.61% per pupil increase for the lowest revenue district, when districts eligible for a low revenue adjustment are excluded. The \$220.29 per pupil increase recommended by the Governor would provide an estimated statewide per pupil revenue increase of 2.99%, ranging from an increase of 1.71% for the highest revenue district to a 3.50% increase for the lowest revenue district, excluding low revenue adjustment districts.

5. In 2002-03, it is estimated that a \$232.12 per pupil increase would provide a statewide revenue per pupil increase of approximately 3.06%, ranging from an increase of 1.77% for the highest revenue district to a 3.61% increase for the lowest revenue district. The \$220.29 per pupil increase recommended by the Governor would provide an estimated statewide per pupil revenue increase of 2.91%, ranging from an increase of 1.68% for the highest revenue district to a 3.43% increase for the lowest revenue district.

6. It may be desirable to maintain the current law inflationary adjustment to the per pupil increase in order to accelerate a decline in the per pupil revenue disparity among school districts. Additionally, it could be argued that certain school district expenditure categories, such as special education, staff contracts and school building maintenance, require an increasing rather than a fixed per pupil revenue increase. For example, it has been argued that the qualified economic offer (QEO) provision could permit a 3.8% increase to new teacher compensation packages, while the \$220.29 per pupil revenue limit adjustment would allow for only a 2.99% and 2.91% annual statewide revenue increase per pupil. Further, a stagnant per pupil revenue increase would provide a declining rate of revenue increases over time. Finally, a higher per pupil revenue limit increase may help moderate the effects of revenue limit decreases attributable to declining enrollment.

7. Another option the Committee could consider is to maintain the \$220.29 per pupil

increase in 2001-02 only and restore the inflationary increase beginning in 2002-03 using the change in inflation from March, 2001, to March, 2002. Prior to the establishment of the inflationary increase beginning in 1998-99, for example, the per pupil increase was maintained at \$206 in both 1996-97 and 1997-98. Based on the estimated inflation rate, this would result in a per pupil revenue increase of \$225.58 in 2002-03, which would provide a statewide revenue per pupil increase of approximately 2.98%, ranging from a per pupil increase of 1.73% for the highest revenue district to a 3.51% per pupil increase for the lowest revenue district in that year.

8. On the other hand, it may be desirable to maintain the current per pupil annual increase under revenue limits, as \$220.29 already provides a per pupil revenue increase of more than the estimated inflation rates for the upcoming biennium. The change in the CPI-U for 1999-00 and 2000-01 is estimated to be 2.9% and 2.4% respectively. As noted above, the \$220.29 annual increase provides an estimated statewide increase of 2.99% in 2001-02 and 2.91% in 2002-03. If a school district needs revenues outside of its revenue limit, it can propose a referendum to voters that would allow the district to exceed the revenue limit for recurring or non-recurring purposes.

9. Based on more current inflation estimates and school district enrollment data, the Governor's recommendation would reduce the cost of two-thirds funding of partial school revenues from current law by \$3.7 million in 2001-02 and \$10.5 million in 2002-03. Compared to the bill, this would represent a reestimate of -\$400,000 in 2001-02 and \$300,000 in 2002-03, for a net fiscal effect of -\$100,000 in the biennium. This reestimate is reflected in the projected costs of meeting the goal of two-thirds funding of partial school revenues.

**ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to delete the inflationary increase to the annual per pupil revenue limit increase and maintain it at \$220.29. Delete \$3.7 million in 2001-02 and \$10.5 million in 2002-03 in general school aids in order to maintain two-thirds funding of partial school revenues.

| <u>Alternative 1</u>                    | <u>GPR</u>          |
|---|---------------------|
| <b>2001-03 FUNDING</b> (Change to Base) | - \$14,200,000      |
| <i>[Change to Bill]</i>                 | <i>- \$100,000]</i> |

2. Delete the inflationary increase to the annual per pupil revenue limit increase and maintain it at \$220.29 in 2001-02 only. Restore the inflationary increase beginning in 2002-03. Delete \$3.7 million in 2001-02 and \$7.5 million in 2002-03 in general school aids in order to maintain two-thirds funding of partial school revenues.

| <u>Alternative 2</u>                    | <u>GPR</u>          |
|---|---------------------|
| <b>2001-03 FUNDING</b> (Change to Base) | - \$11,200,000      |
| <i>[Change to Bill]</i>                 | <i>\$2,900,000]</i> |

3. Take no action.

| <b>Alternative 3</b>                    | <b>GPR</b>    |
|---|---------------|
| <b>2001-03 FUNDING</b> (Change to Base) | \$0           |
| [Change to Bill                         | \$14,100,000] |

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