



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #595

### **General School Aids Funding Level (DPI -- General School Aids and Revenue Limits)**

[LFB 2005-07 Budget Summary: Page 395, #1 and Page 398, #2]

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#### **CURRENT LAW**

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 school 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, which is adjusted annually for inflation, is added to the base revenue per pupil for the current school year. In 2004-05, this per pupil increase is \$241.01. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, carryover of unused revenue authority, and the transfer of service adjustment. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A school district can also exceed its revenue limit by receiving voter approval at a referendum.

The 2003-05 biennial budget act (2003 Act 33) eliminated the state's two-thirds funding commitment and the associated statutory provisions. General school aids funding is now provided in a sum-certain appropriation, with the funding level determined through the budget process similar to most other state appropriations.

#### **GOVERNOR**

Provide \$285,000,000 GPR in 2005-06 and \$415,000,000 GPR in 2006-07 for general school aids. General school aids include equalization, integration, and special adjustment aid. Total appropriated funding for general school aids (including base level funding of \$60 million annually from the transportation fund) would increase from \$4,317,545,900 in 2004-05 to

\$4,602,545,900 in 2005-06 and \$4,732,545,900 in 2006-07. This would result in increases of 6.6% and 2.8%, respectively, compared to the prior year.

The following table shows the level of state support for K-12 education in 2004-05, using the categories of state funding that were included in state support under the two-thirds funding commitment prior to its repeal, and the funding levels proposed by the Governor under AB 100.

**TABLE 1**  
**State Support for K-12 Education -- AB 100**  
**(\$ in Millions)**

	2004-05 <u>Base Year</u>	<u>Governor's Proposal</u>		Change to <u>Base Year Doubled</u>	
		<u>2005-06</u>	<u>2006-07</u>	<u>Amount</u>	<u>Percent</u>
<u>State Funding:</u>					
General School Aids	\$4,317.5	\$4,602.5	\$4,732.5	\$700.0	8.1%
Categorical Aids	540.4	561.1	607.4	87.7	8.1
School Levy Tax Credit	469.3	469.3	619.3	150.0	16.0
State Residential Schools	9.1	10.4	10.4	2.6	14.3
Total	\$5,336.3	\$5,643.3	\$5,969.6	\$940.3	8.8%
Estimated Partial School Revenues	\$8,374.6	\$8,640.1	\$8,945.4		
Estimated State Share	63.7%	65.3%	66.7%		

## DISCUSSION POINTS

1. Under the provisions of 2005 Enrolled Assembly Bill 58, the Joint Committee on Finance would have been required to take certain actions in the substitute amendments offered by the Committee to the 2005-07 and 2007-09 executive budget bills. The Committee would have been required to appropriate sufficient general school aids or reduce the per pupil revenue limit adjustment, or both, so that the estimated statewide school property tax levy in 2005-06, 2006-07, and 2007-08 would be no greater than the statewide school property tax levy in 2004-05.

2. Although AB 58 was vetoed by the Governor, the bill could be viewed as expressing the legislative intent to maintain the statewide school levy at the 2004-05 level for the next three years. If the Committee views Enrolled AB 58 as providing this guidance, the per pupil adjustment under revenue limits and the general school aids funding level could be set at levels that achieve the intent of the bill.

3. In the most recent Supreme Court case regarding the constitutionality of the school finance system (Vincent v. Voight), the Court held that students have the right to "an equal opportunity for a sound basic education" that "will equip them for their roles as citizens and enable

them to succeed economically and personally." Under s. 121.01 of Wisconsin Statutes, it is declared that it is "the policy of this state that education is a state function and that some relief should be afforded from the local general property tax as a source of public school revenue where such tax is excessive." The relatively large portion of the state general fund devoted to state support of K-12 education (approximately 44% of the fund was appropriated for state school aids and the school levy tax credit in 2004-05) could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regards to K-12 education. A relatively large increase in general school aids funding would arguably be consistent with these responsibilities.

4. In the Vincent decision, the Court also reaffirmed that "the Legislature is entitled to deference in its legislative policy involving fiscal-educational decisions." Within the constitutional and statutory framework, then, the Legislature has the role of balancing the various competing policy goals for K-12 funding within the context of the overall state budget. The needs of other programs funded from the general fund (such as medical assistance, shared revenue, corrections and the University of Wisconsin System), as well as the overall condition of the state's general fund, must also be considered in determining the level of state support provided to K-12 education.

5. If the goal is to maintain a constant levy, then the level of state general aid funding provided directly impacts the level of school district resources under revenue limits. If more general aid funding is provided, the per pupil adjustment can be set at a higher amount and still maintain a constant statewide levy. If less general aid funding is provided, the per pupil adjustment must be reduced to maintain a constant levy.

6. During public hearings on the budget bill, the Committee heard testimony on the effects 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. Reductions in the overall resource base for school districts would likely exacerbate these difficulties.

7. Given state and local fiscal constraints, however, it may be appropriate to make some reduction in the resource base of school districts. School boards would have to further prioritize their operating budgets to maintain that programming which is most important to the stakeholders in the districts. If the level of state funding provided to districts is reduced and the per pupil adjustment is subsequently reduced, districts would still have the option under current law to pursue additional funding through a referendum. This would ensure that a majority of the voters in the district approve of any additional expenditures.

8. Under the Governor's budget, it is estimated that the statewide gross school property tax levy would decline from \$3,610.7 million in 2004-05 to \$3,575.0 million in 2005-06 and increase to \$3,715.0 in 2006-07. After consideration of the \$150 million increase in the school levy tax credit in 2006-07 (paid in the 2007-08 fiscal year) under AB 100, the net school levy in 2006-07 would decline to \$3,565.0 million. These figures take into account the provisions of AB 100 that would maintain the current law per pupil revenue limit increase, provide additional funding for

general school aid and the school levy tax credit, and make certain modifications to revenue limits.

9. Any number of combinations of revenue limit per pupil adjustments and general school aids funding can result in estimated statewide school property tax levies in 2005-06 and 2006-07 that are no greater than the 2004-05 levy. The following table shows six options for setting the revenue limit per pupil adjustment at various levels in 2005-06 and 2006-07 and the general school aids funding that would need to be provided for each adjustment to maintain the estimated statewide school levy in the 2005-07 biennium at the 2004-05 level. Also shown in the table is the estimated reduction in statewide revenue limit authority that would result from the indicated per pupil adjustment.

**TABLE 2**

**Alternatives for Revenue Limits and General School Aids to Maintain 2004-05 Statewide School Levy**

Per Pupil Adjustment Under Revenue Limits in <u>2005-06 and 2006-07</u>	General School Aids Funding Needed for No <u>Levy Increase (\$ in Millions)</u>		Estimated Change in Revenue Limit Authority ( <u>\$ in Millions</u> )		
	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	
	\$0/\$0	\$20.7	\$56.5	-\$213.6	
\$50/\$50	63.7	142.3	-170.5	-341.6	Alternative 3
\$100/\$100	107.1	229.1	-127.4	-256.6	Alternative 4
\$150/\$150	150.6	316.2	-84.4	-171.3	Alternative 5
\$200/\$200	194.4	403.6	-41.3	-85.6	Alternative 6
\$248/\$252	236.4	491.0	0	0	Alternative 7

10. The funding levels outlined in the table assume that no other changes to revenue limits are made. In AB 100, the Governor proposed increasing the low-revenue ceiling and giving school districts the option of using either a three- or a five-year rolling average for determining revenue limits. Both of these proposals are discussed in separate issue papers. If the Committee chooses to adopt the Governor's recommendations on either or both of these items, or adopts any other proposals that would change statewide school district revenue limit authority, either the per pupil adjustment or general aid funding, or both, would need to be changed accordingly to maintain the estimated statewide school levy at the 2004-05 level.

11. While Enrolled AB 58 specified that the Committee provide additional funding for general school aids to maintain a constant statewide school levy, funding could also be appropriated through the school levy tax credit to achieve the same goal. Funding for general school aids affects the gross levy, while funding for the levy credit would affect the net levy. A separate issue paper discusses the Governor's proposed increase in the school levy tax credit.

12. The level of general school aids funding provided also affects payments under the Milwaukee parental choice program and the Milwaukee and Racine charter school program, which are also discussed in a separate issue paper. The maximum per pupil payment under the choice program is adjusted by the percent change, if non-negative, in the general school aids appropriations from the previous school year to the current school year. The payment under the charter school program is increased by the same amount as the maximum per pupil payment under the choice program. If the Committee chooses to provide a different funding level for general school aids than the Governor, the payments and aid reductions for these two programs would need to be adjusted as well.

**ALTERNATIVES**

1. Approve the Governor's recommendation to provide \$285,000,000 in 2005-06 and \$415,000,000 in 2006-07 for general school aids.

2. Delete the Governor's recommendation and, instead, provide \$20,700,000 in 2005-06 and \$56,500,000 in 2006-07 for general school aids. Set the per pupil adjustment under revenue limits at \$0 in both 2005-06 and 2006-07.

<b>Alternative 2</b>	<b>GPR</b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$622,800,000

3. Delete the Governor's recommendation and, instead, provide \$63,700,000 in 2005-06 and \$142,300,000 in 2006-07 for general school aids. Set the per pupil adjustment under revenue limits at \$50 in both 2005-06 and 2006-07.

<b>Alternative 3</b>	<b>GPR</b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$494,000,000

4. Delete the Governor's recommendation and, instead, provide \$107,100,000 in 2005-06 and \$229,100,000 in 2006-07 for general school aids. Set the per pupil adjustment under revenue limits at \$100 in both 2005-06 and 2006-07.

<b>Alternative 4</b>	<b>GPR</b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$363,800,000

5. Delete the Governor's recommendation and, instead, provide \$150,600,000 in 2005-06 and \$316,200,000 in 2006-07 for general school aids. Set the per pupil adjustment under revenue limits at \$150 in both 2005-06 and 2006-07.

<b><u>Alternative 5</u></b>	<b><u>GPR</u></b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$233,200,000

6. Delete the Governor's recommendation and, instead, provide \$194,400,000 in 2005-06 and \$403,600,000 in 2006-07 for general school aids. Set the per pupil adjustment under revenue limits at \$200 in both 2005-06 and 2006-07.

<b><u>Alternative 6</u></b>	<b><u>GPR</u></b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$102,000,000

7. Delete the Governor's recommendation and, instead, provide \$236,400,000 in 2005-06 and \$491,000,000 in 2006-07 for general school aids.

<b><u>Alternative 7</u></b>	<b><u>GPR</u></b>
<b>2005-07 FUNDING</b> (Change to Bill)	\$27,400,000

8. Maintain current law.

<b><u>Alternative 8</u></b>	<b><u>GPR</u></b>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$700,000,000

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