



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #599

Low-Revenue Ceiling (DPI -- General School Aids and Revenue Limits)

[LFB 2005-07 Budget Summary: Page 399, #5]

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. Under revenue limits, three-year rolling averages of membership are used to calculate base year and current year revenues per pupil. There are several adjustments that are made to the standard revenue limit calculation, such as the low-revenue ceiling, the declining enrollment adjustment, and the carryover of unused revenue limit authority. 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.

In 2004-05, any school district with a base revenue per pupil under revenue limits that is less than the low-revenue ceiling of \$7,800 is allowed to increase its per pupil revenues up to the \$7,800 ceiling. Under this provision, base revenue per pupil is determined by: (a) calculating the sum of the district's prior year general school aids, computer aid, and the property tax levy; (b) dividing the sum under (a) by the average of the district's membership for the three prior school years; and (c) adding the allowable per pupil revenue limit increase (\$241.01 in 2004-05) to the result. If a school district has resident pupils who were solely enrolled in a county children with disabilities education board (CCDEB) program, costs and pupils related to that program are factored into the district's base revenue per pupil calculation. Under current law, the low-revenue ceiling will remain at \$7,800 per pupil in subsequent years.

GOVERNOR

Increase the low-revenue ceiling to \$8,100 in 2005-06 and \$8,400 in 2006-07 and thereafter.

DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. The low-revenue ceiling was enacted in the 1995-97 biennial budget act. That act set the low-revenue ceiling at \$5,300 in 1995-96 and \$5,600 in 1996-97. In each subsequent biennial budget act, the low-revenue ceiling has been increased. Prior to the 2003-05 biennial budget, the low-revenue ceiling was increased by \$200 or \$300 each year. The 2003-05 budget act increased the low-revenue ceiling by \$500 in 2003-04 and \$400 in 2004-05.

2. The following table shows the low-revenue ceiling amount for each year since 1995-96. The table also shows the statewide eligible revenue limit increase generated in each year by the low-revenue ceiling, the number of school districts that were eligible for the adjustment and the number of districts that underlevied by an amount greater than the amount generated by the low-revenue adjustment (in other words, the number of districts that did not utilize any portion of the low-revenue adjustment in the given year). The Norris School District, a residential school that is in a district consisting almost entirely of school property and that gets most of its support from state and federal aid, is excluded from consideration in this paper.

Low-Revenue Ceiling

<u>Year</u>	<u>Low-Revenue Ceiling</u>	<u>Total Eligible Increase Generated by Low-Revenue Adjustment</u>	<u>Number of Districts Eligible for Low-Revenue Adjustment</u>	<u>Number of Districts with Underlevy Greater than Low-Revenue Adjustment</u>
1995-96	\$5,300	\$7,037,000	29	5
1996-97	5,600	7,675,800	33	3
1997-98	5,900	5,865,100	41	6
1998-99	6,100	1,767,000	16	4
1999-00	6,300	1,961,900	5	5
2000-01	6,500	600,500	6	4
2001-02	6,700	667,800	4	2
2002-03	6,900	508,100	2	1
2003-04	7,400	7,261,800	52	5
2004-05	7,800	18,431,900	87	5

3. The low-revenue adjustment for school districts with per pupil revenues below the revenue ceiling is intended to decrease the disparity between low-revenue and high-revenue school

districts in the state by providing additional revenue limit authority to low-revenue districts. In 1994-95, the year prior to enactment of the low-revenue ceiling, the highest base revenue per pupil for any district was \$11,584, while the lowest was \$4,287. The highest 2003-04 base revenue per pupil was \$13,994, while the lowest was \$7,040. Over that time, the base revenue per pupil for the lowest district increased by 64%, while for the highest it increased 21%. In 1994-95, the highest district had per pupil revenue 2.7 times that of the lowest district. By 2003-04, that ratio had decreased to 2.0.

4. Under current law, it is estimated that three districts would fall below the current law \$7,800 low-revenue ceiling in 2005-06 and that no districts would fall below it in 2006-07. Assuming no other changes to current law revenue limits, an estimated 88 school districts would be eligible for an adjustment under a low-revenue ceiling of \$8,100 in 2005-06 and an estimated 96 districts would be eligible for an adjustment under a low-revenue ceiling of \$8,400 in 2006-07. If all districts fully utilized the additional authority under the proposed levels for the low-revenue ceiling, they would collectively raise additional estimated revenue of \$11.1 million in 2005-06 and an additional \$5.5 million in 2006-07. On a per-pupil basis, the proposed levels for the low-revenue ceiling would allow eligible districts to raise an additional estimated \$9 to \$447 in revenue in 2005-06 and an additional estimated \$3 to \$58 in 2006-07.

5. If used by school districts, the additional revenue limit authority would be funded by a combination of general school aids, computer aid, and property taxes. Under AB 100, an additional \$285 million in 2005-06 and \$415 million in 2006-07 in additional general school aids funding would be provided.

6. In the 2003-05 biennium, the total amount generated by the low-revenue adjustment and the number of districts eligible for the adjustment were relatively large. It could be argued that the increases in the low-revenue ceiling proposed by the Governor would be consistent with the policy enacted in 2003 Act 33, and would maintain the ability of this adjustment to reduce the disparity between low- and high-revenue districts.

7. As shown in the table, in those years that the low-revenue ceiling applied to more than a handful of districts, most districts took advantage of at least some of the additional revenue limit authority provided. A fairly constant number of districts have not utilized the low-revenue adjustment since its enactment. Thus, it could be argued that, for most districts with lower revenues, a low-revenue ceiling that provides a meaningful adjustment could be effective in reducing revenue disparities among districts.

8. Those opposed to increasing the low-revenue adjustment argue that while it may allow school districts with the lowest per pupil revenues to expand educational opportunities, it could also have an impact on the local levy in those districts that utilize the additional authority. Furthermore, they contend that even without the low-revenue adjustment, current law already allows school districts to exceed the limit through referendum and that using this option would ensure local support of the district's decision to spend or tax at higher levels.

9. In addition, low-revenue districts already benefit in percentage terms from the flat dollar adjustment per pupil under revenue limits. The \$241.01 per pupil adjustment in 2004-05, for example, generates allowable per pupil growth in the range of 3.3% to 3.4% above base revenues for the 10% of districts with the lowest base revenue per pupil in 2004-05. For the 10% of districts with the highest base revenue per pupil, the same dollar increase per pupil generates increases of approximately 1.7% to 2.6% above base revenues. One can argue that this aspect of revenue limits will gradually decrease the revenue disparities between districts in percentage terms over time.

ALTERNATIVES

1. Approve the Governor's recommendation to increase the low-revenue ceiling to \$8,100 in 2005-06 and \$8,400 in 2006-07.
2. Delete the provision.

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