



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #600

### **Carryover of Unused Revenue Limit Authority (DPI -- General School Aids and Revenue Limits)**

[LFB 2005-07 Budget Summary: Page 399, #6]

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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. 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 declining enrollment adjustment, carryover of unused revenue limit 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.

Under the carryover adjustment for unused revenue limit authority, if a school district does not levy the maximum amount allowed under its revenue limit in that year, the district's revenue limit in the following school year is increased. The increase in the following year equals 75% of the underlevy in the prior year.

Current law also establishes a separate calculation of the 75% carryover, if the school district receives a positive prior year general school aid adjustment. Under this separate calculation, if such a school district underlevied in the prior year, and receives a positive aid adjustment in the current year, it can carryforward 100% of any underlevy up to the amount of the aid adjustment, as well as 75% of any remaining underlevy.

## GOVERNOR

Modify the adjustment for carryover of unused revenue limit authority from 75% to 100%, beginning with the calculation of revenue limits for the 2005-06 school year. Also, delete the related current law provisions for districts that receive positive prior year aid adjustments.

## DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. Initially, there was no provision allowing the carryover of unused revenue limit authority to a subsequent year. In the 1995-97 biennial budget, the 75% carryover provision was established. In the 2001-03 biennial budget, the 75% carryover provision was modified for districts that receive positive prior year aid adjustments.

2. In 2004-05, the 75% carryover adjustment generated nearly \$4.9 million in additional revenue limit authority for 63 school districts. (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.) Had this bill provision been in effect for the calculation of revenue limits for 2004-05, the 100% carryover adjustment would have generated revenue limit authority of nearly \$6.5 million for those districts, an increase of approximately \$1.6 million compared to current law. This increase represents 0.02% of the over \$7.3 billion in total revenue limit authority for school districts in 2004-05.

3. While this bill provision would provide additional revenue limit authority to school districts, the effect of the provision on school property taxes is less clear. Some school districts that levied to the maximum in 2003-04 might have set a lower levy if the district would not have lost 25% of the underlevy in 2004-05. These districts may have levied to the maximum out of concern for their future revenue limits, even if they did not need the additional revenues in 2003-04. To the extent that school boards would not levy to the maximum because they would retain 100% of the underlevy in the subsequent year under this bill provision, school property taxes could decrease.

4. The Governor's Task Force on Educational Excellence recommended this provision in its final report. The report noted that the current law 75% carryover provision creates an incentive for a school district to levy to their revenue limit maximum regardless of whether the needs of the district require it, thus creating a disincentive for school districts to spend prudently. The report asserts that changing to a 100% carryover provision would remove this disincentive and provide districts greater flexibility in making local taxing and spending decisions.

5. Of the 63 districts that received a carryover adjustment in 2004-05, 28 levied to the maximum in that year, thus using all the carryover authority generated. Sixteen districts underlevied by an amount less than the carryover adjustment, indicating they utilized a portion of the carryover adjustment. The other 19 districts underlevied by an amount greater than or equal to the carryover adjustment, indicating that they utilized none of the carryover adjustment.

6. Because the bill provision provides some school districts with additional revenue limit authority, it is possible that some would use that authority to increase their levies in subsequent years. Had this provision applied in 2004-05, some portion of the 28 districts with a carryover adjustment that levied to the maximum, for example, may have chosen to use all of the 100% carryover adjustment. To the extent that school boards utilize the additional revenue limit authority allowed under the provisions of the bill, school property taxes could be higher.

## **ALTERNATIVES**

1. Adopt the Governor's recommendation to modify the adjustment for carryover of unused revenue limit authority from 75% to 100%, beginning with the calculation of revenue limits for the 2005-06 school year. Also, delete the related current law provisions for districts that receive positive prior year aid adjustments.

2. Delete the provision.

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