



## Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #625

### **State Support for K-12 Education and General School Aids Funding Level (DPI -- General School Aids and Revenue Limits)**

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 459, #1 and Page 462, #2]

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#### **CURRENT LAW**

Under Article X, Section 3, of Wisconsin's Constitution, the Legislature is responsible for the establishment of public school districts which are to be "as nearly uniform as practicable" and "free and without charge for tuition to all children." 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, and that other sources of revenue should contribute a larger percentage of the total funds needed."

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 a district's allowable revenue 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 2006-07, this per pupil increase is \$256.93. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment and the low-revenue ceiling 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.

General school aids, which are unrestricted aids to school districts, include equalization, integration, and special adjustment aids. The vast majority of general school aids funding is distributed through the equalization aid formula. A major objective of the formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. In pure form, this means that a school district's property tax rate does not depend on the property tax base of the district, but rather on the level of expenditures. The provision of state aid through the formula allows a district to support a given level of per pupil expenditures with a similar local property tax rate as other districts with the same level of per pupil expenditures, regardless of property tax wealth. There is an inverse relationship between equalization aid and property valuations. Districts with low per pupil property valuations receive a larger share of their costs through the formula than districts with high per pupil property valuations.

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. State support of K-12 education under the two-thirds funding commitment was defined in statute based on the concept of partial school revenues, which includes only revenues received by school districts from state aid and the property tax levy. The statutes defined both the numerator and denominator of the two-thirds calculation. The numerator was the sum of general and categorical school aids, the school levy tax credit, and the general program operations appropriation for the Wisconsin Educational Services Program for the Deaf and Hard of Hearing and the Wisconsin Center for the Blind and Visually Impaired. The denominator of the two-thirds funding calculation (partial school revenues) was, with certain exceptions, the sum of state general and categorical school aids and gross property taxes levied, including computer aid, for school districts.

## **GOVERNOR**

Provide \$79,319,200 in 2007-08 and \$156,075,200 in 2008-09 for general school aids. General school aids funding would increase from \$4,722,745,900 in 2006-07 to \$4,802,065,100 in 2007-08 and \$4,878,821,100 in 2008-09. This would result in increases of 1.7% and 1.6%, respectively, compared to the prior year. In addition, SB 40 would provide \$100,000,000 in a first dollar credit that would affect school property taxes in 2008-09. The proposed first dollar credit will be addressed in a subsequent Legislative Fiscal Bureau paper.

The following table shows the level of state support for K-12 education in 2006-07, 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 SB 40 for the 2007-09 biennium.

**TABLE 1**  
**State Support for K-12 Education -- SB 40**  
**(\$ in Millions)**

	2006-07 Base Year	Governor's Proposal		Change to Base Year Doubled	
		2007-08	2008-09	Amount	Percent
<u>State Funding:</u>					
General School Aids	\$4,722.7	\$4,802.1	\$4,878.8	\$235.5	2.5%
Categorical Aids	571.7	609.8	644.1	110.5	9.7
School Levy Tax Credit	593.1	593.1	693.1	100.0	8.4
State Residential Schools	<u>10.4</u>	<u>11.5</u>	<u>11.5</u>	<u>2.2</u>	10.6
Total	\$5,897.9	\$6,016.5	\$6,227.5	\$448.2	3.8%
Estimated Partial School Revenues	\$8,927.4	\$9,254.7	\$9,598.4		
Estimated State Share	66.1%	65.0%	64.9%		

## DISCUSSION POINTS

1. Revenue limits control the level of school district resources from state general aids and the local property tax levy, which are the two largest sources of revenue for districts. To maintain the revenue limit framework and current law per pupil adjustment, resources must come from either general aid or the property tax levy to fund school district spending. If additional general aid funding is provided, the property tax levy would be reduced by a corresponding amount. If general aid funding is reduced, school boards have the authority to backfill the aid reduction through the levy.

2. If the per pupil adjustment is reduced, however, then the state would not need to provide as much general aid to achieve a given levy amount. Similarly, a set amount of general aid would result in a lower levy amount.

3. The level of state resources for the support of K-12 education increased significantly as a result the two-thirds commitment. In the years immediately prior to 1994-95, GPR school aids and the school levy credit constituted approximately 34 percent of total state general fund appropriations. In 2006-07, it is estimated that those appropriations constitute nearly 44 percent of state general fund appropriations.

4. The relatively large portion of the state general fund devoted to state support of K-12 education could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regards to K-12 education. Providing additional general school aids funding in the 2007-09 biennium would arguably be consistent with these responsibilities.

5. In the most recent Supreme Court case regarding the constitutionality of the school

finance system in 2000 (Vincent v. Voight), the Court held that the state school finance system did not violate either the uniformity clause or the equal protection clause of the state Constitution. The Court also found that "the present school finance system more effectively equalizes the tax base among districts" than the system upheld as constitutional in the previous school finance decision of the Court in 1989 (Kukor v. Grover). The Court noted that this was due in part to the significant increase in state funding that occurred in the time between the two decisions.

6. 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.

7. Under SB 40, the Governor maintains the basic revenue limit framework and the inflationary increase to the per pupil adjustment, which will be \$264 in 2007-08 and is estimated to be \$270 in 2008-09. The Governor also recommends modifying revenue limits to increase the low-revenue ceiling, provide additional revenue limit authority to declining enrollment districts, and provide adjustments for school safety expenditures and teacher mentoring activities. Under SB 40, additional funding would also be provided for several categorical aid programs and the school levy tax credit. The alternatives in this paper are based on the recommendations included in SB 40. If the Committee modifies or deletes the Governor's recommendations on any of these items, or adopts any other proposals that would change revenue limits or funding for categorical aids or the school levy tax credit, the funding levels and state support percentages under the alternatives would change.

8. Under SB 40, the level of state support would decline from 66.1% in 2006-07 to an estimated 65.0% in 2007-08 and 64.9% in 2008-09. The Committee could choose to provide additional general aid funding to maintain the 2006-07 level of state support in the 2007-09 biennium. Under this alternative, an additional \$97.4 million in 2007-08 and \$113.4 million in 2008-09 in general aid would need to be provided.

9. Given state and local fiscal constraints, 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 and local funding provided to districts is reduced under an alternative to tighten revenue limits, 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 the additional expenditures.

10. Any number of combinations of per pupil adjustments and general aid funding can be provided to maintain the 66.1% level of state support. Table 2 shows three such options. Table 2 also shows the estimated reduction in school district resources under revenue limits that would

result due to the lower per pupil adjustment. The figures shown include the effect of bill provisions that would mitigate the reduction, such as the low-revenue ceiling and the prior year base revenue floor. If the Committee modifies those other bill provisions, the reductions shown would change.

**TABLE 2**

**Alternatives for Per Pupil Adjustments and General Aid Funding Needed to Maintain 66.1% Level of State Support (Funding in Millions)**

Per Pupil Adjustment in <u>2007-08 and 2008-09</u>	General Aid Funding Needed to Maintain <u>66.1% Support--Change to SB 40</u>		Estimated Reduction in <u>School District Resources</u>	
	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
	\$200/\$200	\$69.8	\$54.7	-\$41.5
\$150/\$150	51.3	16.6	-69.3	-145.8
\$100/\$100	34.6	-16.4	-94.6	-195.3

11. Alternatively, the Committee could choose to maintain the level of general aid funding in the bill and also reduce the per pupil adjustment. Under any of these alternatives, the level of state support would increase as the per pupil adjustment declines. Table 3 shows the same three options as Table 2, and the level of state support that would result under each. Table 3 also shows the estimated reduction in revenue limit authority, net of other revenue limit provisions in the bill.

**TABLE 3**

**Alternatives for Per Pupil Adjustments and Level of State Support with General Aid Funding in the Bill (Funding in Millions)**

Per Pupil Adjustment in <u>2007-08 and 2008-09</u>	Level of State Support <u>with Funding in the Bill</u>		Estimated Reduction in <u>School District Resources</u>	
	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
	\$200/\$200	65.3%	65.5%	-\$41.5
\$150/\$150	65.5	65.9	-69.3	-145.8
\$100/\$100	65.7	66.2	-94.6	-195.3

12. If the Committee reduced the per pupil adjustment in the 2007-09 biennium, the question of how to treat the indexing provisions of the adjustment for 2009-10 would need to be considered. Under current law, the per pupil adjustment is indexed for inflation each year. The

Committee could choose to specify that the adjustment in 2009-10 be set at the level it would have been equal to had the current law indexing provisions remained in effect. Alternatively, the Committee could also resume the inflation indexing in 2009-10 starting from a lower 2008-09 adjustment.

13. 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 expenditures that are outside of a district's control. Reductions in the overall resource base for school districts from either state aid or the local levy would likely exacerbate these difficulties.

14. Further, in the Vincent case, the Court also addressed the issue of educational adequacy that has been used in court cases in other states dealing with the constitutionality of K-12 funding systems. In Vincent, 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." The Court also held that "so long as the Legislature is providing sufficient resources so that school districts offer students the equal opportunity for a sound basic education as required by the Constitution, the state school finance system will pass constitutional muster."

15. 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. The maximum per pupil payment under the choice program is adjusted by the percent change, if non-negative, in the general school aids appropriation 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 TO BILL**

1. Approve the Governor's recommendation to provide \$79,319,200 in 2007-08 and \$156,075,200 in 2008-09 for general school aids, which would result in estimated state support levels of 65.0% in 2007-08 and 64.9% in 2008-09.

ALT 1	Change to Bill Funding	Change to Base Funding
GPR	\$0	\$235,394,400

2. *Fund 66.1% Annually.* Provide an additional \$97,400,000 in 2007-08 and \$113,400,000 in 2008-09 for general school aids, which would result in estimated state support

levels of 66.1% in 2007-08 and in 2008-09.

<b>ALT 2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$210,800,000	\$446,194,400

3. *Reduce the Per Pupil Adjustment to \$200.* Set the per pupil adjustment at \$200 in 2007-08 and in 2008-09, which would result in estimated state support levels of 65.3% in 2007-08 and 65.5% in 2008-09, but would reduce school district resources by an estimated \$41.5 million in 2007-08 and \$88.4 million in 2008-09.

4. *Reduce the Per Pupil Adjustment to \$200 and Fund 66.1% Annually.* Set the per pupil adjustment at \$200 in 2007-08 and in 2008-09 and provide an additional \$69,800,000 in 2007-08 and \$54,700,000 in 2008-09 for general school aids, which would result in estimated state support of 66.1% in 2007-08 and in 2008-09, but would reduce school district resources by an estimated \$41.5 million in 2007-08 and \$88.4 million in 2008-09.

<b>ALT 4</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$124,500,000	\$359,894,400

5. *Reduce the Per Pupil Adjustment to \$150.* Set the per pupil adjustment at \$150 in 2007-08 and in 2008-09, which would result in estimated state support of 65.5% in 2007-08 and 65.9% in 2008-09, but would reduce school district resources by an estimated \$69.3 million in 2007-08 and \$145.8 million in 2008-09.

6. *Reduce the Per Pupil Adjustment to \$150 and Fund 66.1% Annually.* Set the per pupil adjustment at \$150 in 2007-08 and in 2008-09, and provide an additional \$51,300,000 in 2007-08 and \$16,600,000 in 2008-09 for general school aids, which would result in estimated state support of 66.1% in 2007-08 and in 2008-09, but would reduce school district resources by an estimated \$69.3 million in 2007-08 and \$145.8 million in 2008-09.

<b>ALT 6</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$67,900,000	\$303,294,400

7. *Reduce the Per Pupil Adjustment to \$100.* Set the per pupil adjustment at \$100 in 2007-08 and in 2008-09, which would result in estimated state support of 65.7% in 2007-08 and 66.2% in 2008-09, but would reduce school district resources by an estimated \$94.6 million in 2007-08 and \$195.3 million in 2008-09.

8. *Reduce the Per Pupil Adjustment to \$100 and Fund 66.1% Annually.* Set the per pupil adjustment at \$100 in 2007-08 and in 2008-09 and provide an additional \$34,600,000 in 2007-08 and delete \$16,400,000 in 2008-09 for general school aids, which would result in estimated state support of 66.1% in 2007-08 and in 2008-09, but would reduce school district resources by an estimated \$94.6 million in 2007-08 and \$195.3 million in 2008-09.

<b>ALT 8</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$18,200,000	\$253,594,400

9. In addition to any of the alternatives reducing the per pupil adjustment, specify either:

a. that the adjustment in 2009-10 would be set equal to the amount that it would have been had the current law indexing provisions applied in the 2007-09 biennium; or

b. that the current law indexing provisions resume in 2009-10 based on the lower adjustment amount.

10. Delete provision.

<b>ALT 10</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	- \$235,394,400	\$0

Prepared by: Russ Kava