



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #528

### Low Revenue Adjustment (DPI -- General School Aids and Revenue Limits)

[LFB 2011-13 Budget Summary: Page 346, #6]

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#### CURRENT LAW

Under revenue limits, the amount of revenue a school district can raise from general school aids, computer aid, and property taxes is restricted. A district's base revenue in a given year is equal to the general aid, computer aid, and property tax revenues received in the prior school year. Base revenue is divided by the average of the district's enrollments in the prior three years to determine its base revenue per pupil. A per pupil adjustment is added to the base revenue per pupil to determine the district's current year revenue per pupil. In 2010-11, the per pupil adjustment is \$200. Current year revenue per pupil is then multiplied by the average of the district's enrollments in the current and prior two years to determine the district's initial revenue limit. There are several adjustments that are made to the standard revenue limit calculation, such as the low revenue ceiling and the declining enrollment adjustment. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A district can also exceed its revenue limit by receiving voter approval at a referendum.

Under the low revenue ceiling adjustment, any district with base revenue per pupil, after adding the per pupil adjustment, that is below a statutorily-specified amount may increase its revenues up to that amount. Under current law, the low revenue ceiling is set at \$9,000 per pupil in 2010-11 and would be \$9,800 per pupil in 2011-12 and each year thereafter. (The data on the low revenue ceiling discussed in this paper excludes the Norris School District, which is not directly comparable to other districts because it is a residential school in a district consisting almost entirely of school property and gets most of its support from state and federal aid.)

#### GOVERNOR

Set the low revenue ceiling at \$8,900 per pupil in 2011-12 and each year thereafter.

## DISCUSSION POINTS

1. Revenue limits were first imposed on school districts in 1993-94. The low revenue ceiling adjustment was added to the revenue limit calculation beginning in 1995-96. This adjustment is intended to decrease the disparity between low-revenue and high-revenue districts in the state by providing additional revenue limit authority to low-revenue districts.

2. The impact of the low revenue adjustment has varied over time and has typically depended on the relative change in the low revenue ceiling amount compared to the increase in the per pupil adjustment for all districts. The adjustment has generated more authority for a larger number of districts when the low revenue ceiling received a larger increase than the per pupil adjustment. When the low revenue ceiling did not increase at all or only by the same amount as the per pupil adjustment, the low revenue adjustment had minimal impact statewide.

3. In 2008-09, the low revenue ceiling was \$9,000 per pupil. A total of 75 districts were eligible for the low revenue adjustment in that year. In the 2009-11 biennial budget, the per pupil adjustment for all districts was set at \$200 for both 2009-10 and 2010-11. The low revenue ceiling, however, was maintained at \$9,000 in each year. As a result, low revenue districts in 2008-09 were able to increase their per pupil revenues to \$9,200 in 2009-10 and \$9,400 in 2010-11 from the per pupil adjustment, with the low revenue ceiling having basically no effect.

4. Only one district in each year of the 2009-11 biennium was affected by the low revenue adjustment (Cadott Community in 2009-10 and Hudson in 2010-11). This occurred because each district levied less than the maximum allowed under revenue limits in the prior year by an amount significant enough to reduce their base revenue per pupil below \$9,000.

5. Under the budget bill, the current law per pupil adjustment would be replaced with a 5.5% reduction to a district's base revenue per pupil in 2011-12 and no adjustment to base revenue per pupil in 2012-13. Maintaining the low revenue ceiling at the current law amount of \$9,800 per pupil beginning in 2011-12 would provide so much revenue limit authority to eligible districts as to be inconsistent with the intent of the bill to significantly reduce revenue limits and general aid funding.

6. It is not possible to project with certainty which districts would be eligible for the low revenue adjustment under the bill, because that depends in part on future enrollment changes in the district and the levy decisions of local school boards. Revenue per pupil data for 2010-11, however, can be used to provide some indication of which districts might be eligible for the proposed low revenue ceiling amount in the bill or any alternatives.

7. Based on the 5.5% base revenue per pupil reduction under the bill, and assuming no other changes to revenue limits, school districts with 2010-11 base revenue per pupil (the starting point for the 2011-12 revenue limit calculation) of less than \$9,418 would be most likely to be eligible for the \$8,900 per pupil low revenue ceiling under the bill in 2011-12. Using this approach, it is estimated that 55 districts would be eligible for the low revenue adjustment under the bill in 2011-12. If all districts fully utilized the additional revenue limit authority under the low revenue adjustment under the bill, they would collectively raise additional estimated revenue of \$6.4 million

in 2011-12.

8. The effect of the low revenue ceiling under the bill would be most significant for those low revenue districts with a relatively significant underlevy in 2010-11 which would result in their 2010-11 base revenue per pupil being near or below \$9,300. The 5.5% reduction in base revenue per pupil under the bill would result in these districts otherwise having 2011-12 revenue per pupil under \$8,800. An \$8,900 per pupil low revenue adjustment thus provides these districts with over \$100 per pupil in additional revenue limit authority. An estimated five districts in this situation would generate \$5.3 million in total revenue limit authority from the low revenue adjustment under the bill, out of the total estimated amount of \$6.4 million.

9. The estimated effect of the low revenue adjustment under the bill would not be as great, however, for the class of districts that were eligible for the last meaningful low revenue adjustment in 2008-09 and are now at or near \$9,400 in base revenue per pupil for 2010-11. The 5.5% reduction in base revenue per pupil under the bill would result in these districts being slightly below the \$8,900 per pupil low revenue ceiling under the bill, with the low revenue adjustment generally providing them less than \$40 per pupil in additional revenue limit authority. An estimated 50 districts in this group would generate nearly \$1.1 million in total revenue limit authority from the low revenue adjustment under the bill, out of the total estimated amount of \$6.4 million..

10. To provide a more meaningful adjustment for this group of districts, the low revenue ceiling could be maintained at \$9,000 per pupil, the amount used in the 2010-11 calculation. Districts with 2010-11 base revenue per pupil of less than \$9,524 would be most likely to be eligible for the \$9,000 per pupil low revenue ceiling under this alternative in 2011-12. A total of 105 districts would be eligible for a \$9,000 per pupil low revenue ceiling in 2011-12. If all districts fully utilized the additional authority under a \$9,000 per pupil low revenue adjustment, they would collectively raise additional estimated revenue of \$22.0 million in 2011-12, an increase of \$15.6 million compared to the bill.

11. An argument can be made against the low revenue adjustment because while it provides additional financial resources to districts with the lowest per pupil revenues, it could also have an impact on the levy in those districts that utilize the additional authority.

12. In addition, current law allows a school district to exceed its revenue limit through referendum. Using this option would ensure local support of a low revenue district's decision to spend at higher levels. Statutory provisions governing school district referenda would not be modified under the bill.

13. Finally, low revenue districts would benefit on a per pupil basis from the 5.5% base revenue per pupil reduction under the bill. On an estimated basis, that reduction would result in a \$517 or lower per pupil reduction for the 5% of districts with the lowest base revenue per pupil. For the 5% of districts with the highest base revenue per pupil, the per pupil reduction would be over \$666 per pupil.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to set the low revenue ceiling at \$8,900 per pupil in 2011-12 and each year thereafter.
2. Modify the Governor's recommendation to set the low revenue ceiling at \$9,000 per pupil in 2011-12 and each year thereafter.
3. Delete provision.

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