



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #737

Revenue Limit Flexibility (DPI -- Revenue Limits)

CURRENT LAW

School district revenue limits restrict the amount of revenues that school districts can obtain through the combination of general school aids, computer aid and the property tax levy. On October 15 of each year, the Department of Public Instruction (DPI) provides school districts with an estimate of their general school aids for the current year. The difference between a school district's revenue limit and the October 15 general school aids estimate, less the district's computer aid eligibility, determines the maximum amount of revenue that the district is allowed to raise through the property tax levy. Actual general school 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 three-year rolling average of a school district's pupil enrollment is used to determine the allowable revenue increase under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, the average of the 1997, 1998 and 1999 September memberships was used to calculate the 1999-00 base year revenues per pupil. Then, the average of the 1998, 1999 and 2000 September memberships was used to determine the allowable revenue increase in 2000-01. In addition, beginning with revenue limits calculated for the 1998-99 school year, revenue limit enrollment includes 20% of summer school FTE enrollment for the 1998-99 and 1999-00 school years. Beginning with revenue limits calculated for the 2000-01 school year, revenue limit enrollment will include 40% of summer school FTE enrollment for the 2000-01 school year and each school year thereafter.

A per pupil revenue increase is added to the base revenue per pupil to determine an allowable per pupil revenue increase. In 2000-01, the per pupil increase is \$220.29. The per pupil adjustment amount is indexed for inflation, by multiplying the prior year dollar amount by

the percentage change in the consumer price index between the preceding March and the second preceding March.

Under current law, there are several adjustments that are made to school district revenue limits following the calculation presented above. These include adjustments for transfers of service and boundary changes, low-revenue districts, carryover of unused revenue authority, federal impact aid, school district reorganization, and declining enrollments. These adjustments generally increase a district's revenue limit, providing the district with more revenue authority within the calculated limit.

A school district may exceed its revenue limit by receiving voter approval at a referendum. The school board must approve a resolution supporting inclusion in the school district budget an amount that exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or nonrecurring purpose, or both. If the resolution is approved by a majority of those voting on the question, the school board can exceed the limit by the amount approved. Only excess revenues approved for a recurring purpose can be included in a district's base for determining the revenue limit for the next school year.

Generally, school boards must receive voter approval of such a resolution in order to construct a new school building. School construction projects usually require school districts to issue bonds, to be repaid over a 15- to 20-year period outside of a school district's revenue limit, to cover the construction costs. School districts may also receive voter approval through a referendum for purposes other than school construction projects, such as operating costs for a new building, maintenance costs, special projects or general purposes. A school district may also exceed its revenue limit to pay debt service costs for debt approved by a referendum or a school board resolution prior to August 12, 1993. This provision permits school districts to fund debt costs incurred prior to the implementation of revenue limits in the 1993-94 school year.

GOVERNOR

No provision.

DISCUSSION POINTS

1. During public hearings on the budget bill, the Committee heard testimony from various witnesses on the effects of revenue limits on school district operations. This testimony generally indicated that revenue limits were 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.

2. This concern was also noted by the State Superintendent's School Finance Task Force, which issued its final report in June, 2000. The Task Force found that many school districts have unique financial problems for which the revenue limit restricts potential solutions, such as the

high initial expense to set up a program for a severely-handicapped child. The Task Force noted that some believe there is a need for more flexibility in the revenue limits to help school districts better respond to costs such as these and other costs that are beyond a district's control. The Task Force argued that school districts should be able to raise a limited amount of additional revenue locally to pay for unanticipated costs without having to pass a referendum. It was also argued that providing more general revenue limit relief that would be available to all districts would also be preferable to passing revenue limit adjustments for more specific items that would not necessarily apply to all districts.

3. Others would argue, however, that all districts are now provided with an annual, flat per pupil increase to base revenue per pupil under revenue limits to account for increases in costs, and that revenue limit adjustments, such as the declining enrollment adjustment, already provide additional resources to districts in unique situations. Further, some would argue that school districts already have an option for flexibility under revenue limits, which is to pass a referendum. If a school board does not believe its district's revenue limit provides the ability to adequately fund the district's operations, it has the option of placing the question of additional expenditure authority to a vote. If the voters in a school district would not increase their district's budget, it may be viewed as inappropriate for the state to provide a mechanism to supersede the local citizenry.

4. In its budget submission to the Governor, DPI included a recommendation, advanced by the State Superintendent's School Finance Task Force, to provide districts with additional flexibility under revenue limits. Under the DPI proposal, a school district could, beginning in 2001-02, increase its revenue limit, on a non-recurring basis, by an amount equal to 1% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average pupil enrollment if the school board adopts a resolution approving the increase by a two-thirds vote of the members-elect. The Department recommended that the additional revenue be excluded from the definition of partial school revenues for the purposes of two-thirds funding, but that expenditures funded from the additional revenue would be included as shared costs in the following year.

5. If the Committee wishes to provide school districts with an additional option for a revenue limit increase, it could consider the proposal made by DPI in its budget submission. The DPI recommendation would give school boards the authority to increase their revenue limits by an estimated \$74 per pupil in 2001-02 and \$77 per pupil in 2002-03. If all districts utilized this option, statewide maximum allowable revenues would increase by an estimated \$63.8 million in 2001-02 and an estimated \$66.6 million in 2002-03.

6. Under the 1% provision, the estimated allowable revenue limit increases for school districts would range from \$4,900 to \$7.3 million in 2001-02. The estimated allowable revenue limit increases for the middle 80% of all school districts would range from \$25,900 to \$266,600 in 2001-02. In terms of a percentage increase from a district's controlled revenue limit prior to adjustments, the estimated allowable revenue limit increases for all school districts would range from 0.57% to 1.15% in 2001-02, with the range for the middle 80% of all school districts from 0.86% to 1.08%.

7. Under the 1% provision, the estimated allowable revenue limit increases for school districts would range from \$5,100 to \$7.5 million in 2002-03. The estimated allowable revenue limit increases for the middle 80% of all school districts would range from \$26,600 to \$286,700 in 2002-03. In terms of a percentage increase from a district's controlled revenue limit prior to adjustments, the estimated allowable revenue limit increases for all school districts would range from 0.58% to 1.16% in 2002-03, with the range for the middle 80% of all school districts from 0.87% to 1.09%.

8. Some have suggested that a school district should be given the option to raise its revenue limit by an amount equal to 2% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average pupil enrollment. Under this proposal, school boards would be able to increase their estimated revenue limits by an estimated \$148 per pupil in 2001-02 and \$155 per pupil in 2002-03. If all districts utilized this option, statewide maximum allowable revenues would increase by an estimated \$127.7 million in 2001-02 and an estimated \$133.1 million in 2002-03.

9. Under the 2% provision, the estimated allowable revenue limit increases for school districts would range from \$9,800 to \$14.7 million in 2001-02. The estimated allowable revenue limit increases for the middle 80% of all school districts would range from \$51,800 to \$533,200 in 2001-02. In terms of a percentage increase from a district's controlled revenue limit prior to adjustments, the estimated allowable revenue limit increases for all school districts would range from 1.13% to 2.31% in 2001-02, with the range for the middle 80% of all school districts from 1.71% to 2.16%.

10. Under the 2% provision, the estimated allowable revenue limit increases for school districts under the 2% provision would range from \$10,200 to \$15.0 million in 2002-03. The estimated allowable revenue limit increases for the middle 80% of all school districts would range from \$53,200 to \$573,400 in 2002-03. In terms of a percentage increase from a district's controlled revenue limit prior to adjustments, the estimated allowable revenue limit increases for all school districts would range from 1.16% to 2.32% in 2002-03, with the range for the middle 80% of all school districts from 1.74% to 2.17%.

11. Under the DPI proposal, the revenue provided would be excluded from the definition of partial school revenues for the purposes of two-thirds funding. As a result, there would be no impact on the general fund and from a statewide perspective the revenue would be completely provided from the local school property tax levy. Because a local board would be making the decision to increase a district's revenue limit, this could be viewed as an appropriate method for providing the additional revenue. Under the 1% provision, this could result in an approximately 2% increase in school property taxes, if all school districts used this option. Under the 2% provision, this could result in a 4% increase.

12. This could, however, be viewed as the state receding from the two-thirds funding commitment, given that a portion of local school property tax revenue would be excluded from consideration of the amount of state aid to be provided to school districts. Excluding this revenue

from partial school revenues could also reduce the attractiveness of this option for relatively low-value school districts, as generating a given amount of revenue would require a relatively larger increase in a lower-value district's mill rate as compared to a higher-value district, although if expenditures made from these revenues would be included in shared costs, lower-valued districts would receive state aid after the first year. To the extent that fewer low-value districts elect this option, it could have a disequalizing effect on the resources available to these districts relative to high-value districts.

13. The Committee could choose to include these revenues in the definition of partial school revenues. Estimating the general fund impact resulting from this option is difficult, given that there is no way to know how many districts would elect to use this provision. However, assuming that some combination of school districts totaling 25% of statewide membership would use this option in 2001-02 and some combination of districts totaling 50% of membership would use it in 2002-03, if a 1% option were used, a total of \$16 million in 2001-02 and \$33 million in 2002-03 would be needed for general school aids to maintain two-thirds state funding. Under a 2% option, \$32 million in 2001-02 and \$67 million in 2002-03 would be required.

14. Another issue to consider is whether expenditures made from the additional revenue would be included in the definition of shared costs for general school aids purposes. As proposed by DPI, these expenditures would be included in a district's shared cost. This would ensure consistent treatment of expenditures for district operations and maintain the concept of tax base equalization in the equalization aid formula, under which 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 school districts with the same level of per pupil expenditures regardless of property wealth.

15. It could be argued that including these expenditures as shared costs would reduce the attractiveness of this option for negative tertiary aid districts, of which there were 124 in 2000-01. All else being equal, for these districts, a higher level of shared costs would result in a lower percentage of state aid. To make the flexibility option more appealing for these districts, expenditures made from the additional revenue could be excluded from shared costs for general school aids purposes.

16. Fully excluding these expenditures from shared costs, however, would disadvantage positive secondary and positive tertiary aid districts, of which there were 271 in 2000-01. The Committee could choose to treat expenditures from the additional revenue in such a way that no district would receive less equalization aid as a result of exercising the flexibility option. Under this alternative, expenditures made from the additional revenue would be included in shared costs for general school aids purposes, unless the inclusion of the expenditures would result in lower equalization aid for a district. This would remove any aid redistribution that otherwise would be to the advantage of positive secondary and positive tertiary districts, but is far more equalizing than fully excluding these expenditures from shared costs.

17. Another option the Committee would need to consider is the level of support needed

on a school board to utilize the option for additional revenue limit flexibility. Under the DPI proposal, a school district could increase its revenue limit under the provision if the school board adopts a resolution approving it by a two-thirds vote of the members-elect. Given that such a vote would result in an increase in the property tax levy in the district, it could be viewed as appropriate that the increase would have to be approved either by a "super-majority" or by the entirety of a school board.

18. However, it could be argued that a two-thirds vote or unanimous requirement would be unduly restrictive and impede the ability of a locally-elected board to govern its own affairs. Thus, the Committee could choose to specify that only a majority vote of the members-elect of a school board would be needed to utilize the proposed revenue limit flexibility.

19. Finally, the Committee could also consider the issue of how often a school district would be able to use the proposed flexibility option. Under the DPI proposal, there would be no limit on the number of years in which a district could use the option. This would provide districts with an ongoing method for raising the resources it deems necessary for its operations and to be able to respond to unanticipated needs as they arise.

20. It may be preferable, though, to limit the use of the flexibility option. While the flexibility option might be necessary for emergencies or unanticipated expenditures, the potential would exist for some districts to continuously use the flexibility. If a school board believes its district's revenue limit is set at a level too low to maintain its ongoing operations, it may be preferable to require referendum approval as under current law to ensure that there is the support of a majority of voters in the district for such expenditures.

ALTERNATIVES TO BASE

Allow a school district to increase its revenue limit, beginning in 2001-02, on a non-recurring basis, as follows:

A. Amount of Adjustment and Inclusion in Partial School Revenues

1. Specify that the increase would equal 1% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average pupil enrollment. Exclude the additional revenue provided from the definition of partial school revenues for the purposes of two-thirds funding.

2. Specify that the increase would equal 2% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average pupil enrollment. Exclude the additional revenue provided from the definition of partial school revenues for the purposes of two-thirds funding.

3. Specify that the increase would equal 1% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average

pupil enrollment. Include the additional revenue provided in the definition of partial school revenues for the purposes of two-thirds funding. Provide \$16 million in 2001-02 and \$33 million in 2002-03 for general school aids to maintain two-thirds funding.

Alternative A3	GPR
2001-03 FUNDING (Change to Base)	\$49,000,000
<i>[Change to Bill]</i>	<i>\$49,000,000]</i>

4. Specify that the increase would equal 2% of the statewide average allowable revenue per pupil in the previous school year multiplied by the district's three-year rolling average pupil enrollment. Include the additional revenue provided in the definition of partial school revenues for the purposes of two-thirds funding. Provide \$32 million in 2001-02 and \$67 million in 2002-03 for general school aids to maintain two-thirds funding.

Alternative A4	GPR
2001-03 FUNDING (Change to Base)	\$99,000,000
<i>[Change to Bill]</i>	<i>\$99,000,000]</i>

5. Take no action.

B. Inclusion in Shared Costs

1. Specify that expenditures made from the additional revenue would be included in shared costs for general school aids purposes.

2. Specify that expenditures made from the additional revenue would be included in shared costs for general school aids purposes, unless the inclusion of the expenditures would result in lower equalization aid for a district.

3. Specify that expenditures made from the additional revenue would be excluded from shared costs for general school aids purposes.

C. Required School Board Vote

1. Specify that the district may increase its revenue limit under these provisions if the school board adopts a resolution approving the increase by a unanimous vote of the members-elect.

2. Specify that the district may increase its revenue limit under these provisions if the school board adopts a resolution approving the increase by a two-thirds vote of the members-elect.

3. Specify that the district may increase its revenue limit under these provisions if the school board adopts a resolution approving the increase by a majority vote of the members-elect.

D. Frequency of Use

1. Allow a school board to adopt a resolution to increase its revenue limit under these provisions annually.

2. Allow a school board to adopt a resolution to increase its revenue limit under these provisions once every three years.

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