



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1223

### Revenue Limit Per Pupil Annual Increase (DPI)

[LFB Governor's 2001-03 Budget Reform Bill Summary: Page 72, #4]

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#### 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 1998, 1999 and 2000 September memberships was used to calculate the 2000-01 base year revenues per pupil. Then, the average of the 1999, 2000 and 2001 September memberships was used to determine the allowable revenue increase in 2001-02. In addition, beginning with revenue limits calculated for the 1998-99 school year, revenue limit enrollment includes 20% of summer school full-time equivalent (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 includes 40% of summer school full-time equivalent (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 2001-02, the per pupil increase is \$226.68. 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.

The per pupil adjustment made to school district revenue limits is also the adjustment that is made each year to the per pupil payment amounts under the Milwaukee parental choice program and the Milwaukee charter school program. In 2001-02, the per pupil payment under the choice program is \$5,553, while the per pupil payment under the charter program is \$6,721. For the choice program, general school aids for MPS are reduced by an amount equal to 45% of the estimated program cost, with the amount levied by MPS to offset the reduction not counted in partial school revenues. For the charter program, general school aids for all school districts are reduced in total by an amount equal the estimated payments under the program. Under revenue limits, school districts may levy property taxes to make up for the amount of revenue lost due to these aid reductions. Because this property tax levy is included in partial school revenues under two-thirds funding, total funding for general school aids is increased by two-thirds of the charter amount, which partially offsets the statewide reduction amount.

## **GOVERNOR**

Specify that the per pupil adjustment under revenue limits for 2002-03 equal \$210. Provide that this adjustment would not apply if a school board adopts a resolution to that effect by a two-thirds vote of the members-elect. Require DPI to encourage school districts to accommodate the reduction in the revenue limit increase without negatively affecting their instructional programs and to provide technical assistance to school districts for that purpose. Provide that for 2003-04 revenue limits, the per pupil adjustment for all districts would be the current law amount adjusted for inflation.

## **DISCUSSION POINTS**

1. The annual per pupil allowable revenue increase under revenue limits has undergone several modifications since the onset of revenue limits in 1993-94. Prior to 1995-96, the allowable per pupil revenue increase could not exceed a flat dollar amount or the rate of inflation, whichever resulted in the higher revenue amount for the district. The increase was set at \$200 in 1995-96 and \$206 in 1996-97 and the flat dollar amount was no longer adjusted for inflation and a school district no longer had the option to use the inflation rate to determine its maximum allowable increase. Under 1997 Act 27, the per pupil increase was fixed at \$206 in 1997-98 and has since been adjusted annually for inflation. The following table provides a history of the per pupil revenue limit adjustment amount.

## Allowable Revenue Increase

	<u>Per Pupil</u>	<u>Inflation Rate</u>
1993-94	\$190.00	3.2%
1994-95	194.37	2.3
1995-96	200.00	N.A.
1996-97	206.00	N.A.
1997-98	206.00	N.A.
1998-99	208.88	N.A.
1999-00	212.43	N.A.
2000-01	220.29	N.A.
2001-02	226.68	N.A.

2. Limiting all school districts to the same flat per pupil dollar increase in allowable revenues will, over time, reduce the disparity in revenue per pupil among districts in the state on a percentage basis as compared to providing an inflationary increase. A \$226.68 increase per pupil, for example, represents a greater increase as a percent of the base for a district with lower allowable revenues per pupil than for a district with higher revenues per pupil. The inflationary increase to the flat dollar amount enhances this reduction in the disparity in revenue per pupil among school districts.

3. The inflation rate from March, 2001, to March, 2002, is estimated to be 1.8%, using the January forecast of the economy prepared by Standard and Poor's Data Resources, Inc. although the February forecast indicates it could be as low as 1.1%. Using the 1.8% figure, under current law, the annual per pupil revenue limit adjustment would increase from \$226.68 in 2001-02 to an estimated \$230.67 in 2002-03.

4. In 2002-03, it is estimated that a \$230.67 per pupil increase would provide a statewide revenue per pupil increase of approximately 3.0%, ranging from an increase of 1.8% for the highest revenue district to a 3.5% increase for the lowest revenue district, when districts eligible for a low revenue adjustment are excluded. If all districts in the state were subject to a \$210 per pupil increase in 2002-03, it would provide an estimated statewide per pupil revenue increase of 2.8%, ranging from an increase of 1.6% for the highest revenue district to a 3.1% increase for the lowest revenue district.

5. Administration officials indicate that this provision was included in the bill to address the potential increase in the statewide school property tax levy resulting from a general school aids provision of the bill that would first be effective in 2002-03. Under this provision, a limit of \$490 million on the amount of school district debt levy that is recognized for the calculation of partial school revenues would be established, which is estimated to reduce partial school revenues by \$30 million, resulting in a statewide estimated general school aid reduction of \$20 million. Under current law revenue limits, any aid loss by school districts could be made up through the property tax levy. To the extent districts with an aid loss would be subject to the \$210 per pupil adjustment, this would mitigate any increases in the local levy resulting from the other

provisions of the bill.

6. Under the bill, the general school aids funding level is set statutorily at \$4.201 billion, consistent with the provisions of the bill affecting partial school revenues. Administration officials indicate that no estimate of the number of school districts that would be subject to the \$210 per pupil adjustment in 2002-03 was included in the estimate of the general school aids amount needed to maintain two-thirds funding. As a result, to the extent that districts would be subject to the \$210 per pupil adjustment, the state would likely be providing a level of funding greater than two-thirds of partial school revenues, resulting in a statewide reduction in the property tax levy.

7. During public hearings on the budget and budget adjustment bills for the 2001-03 biennium, the Committee heard testimony from various witnesses on the effect 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 costs that are outside of a district's control. Given the concern that has been voiced about the impact of revenue limits on school district operations, one could argue that, even with the two-thirds requirement for a vote by the school board, most districts would opt for the current law adjustment rather than the \$210 option under the bill. If this were the case, there would be little effect on the statewide school levy.

8. To better ensure that the general school aids provisions of the bill would not have as great an impact on the school district levy, the Committee could choose to set the per pupil adjustment in 2002-03 at \$210. If all districts in the state were subject to the \$210 per pupil adjustment, it is estimated that partial school revenues would be reduced by \$17.9 million in 2002-03 compared to current law. Thus, the cost of funding two-thirds of partial school revenues would be reduced by \$11.9 million in 2002-03.

9. If the per pupil payment were set at \$210, the Committee could set the 2003-04 adjustment to be \$210 adjusted for inflation. Having the adjustment start from the lower base would reduce state general fund expenditures on two-thirds funding on an ongoing basis in the future. However, starting from the lower base would also restrict total school district resources in future years.

10. It is unclear under the bill how the per pupil adjustment provisions would apply to the choice and charter programs. If the Committee adopts the Governor's recommendation with respect to the \$210 per pupil adjustment and the school board override, the treatment of choice and charter schools should be clarified. The Committee could choose to maintain the current law adjustment, provide a \$210 adjustment or specify that the adjustment for choice and charter schools be equal to the adjustment taken by the Milwaukee Public Schools.

11. If the per pupil adjustment would be limited to \$210 for choice and charter schools, choice program expenditures would be reduced by \$244,000. The 45% lapse from MPS general school aids would be reduced by \$110,000, resulting in a net GPR reduction related to the choice program of \$134,000. Charter program expenditures would be reduced by \$57,000, with the corresponding lapse from statewide general school aids reduced by an equal amount. General

school aids funding would be reduced by \$38,000 as a result of the reduced lapse and levy offset. The net fiscal effect of limiting per pupil adjustment to \$210 for choice and charter schools would be a GPR reduction of \$172,000.

**ALTERNATIVES TO BILL**

**A. Public School Revenue Limit Adjustment**

1. Approve the Governor’s recommendation to set the per pupil adjustment under revenue limits for 2002-03 equal \$210, but provide that the \$210 adjustment would not apply if a school board adopts a resolution to that effect by a two-thirds vote of the members-elect. Specify that the per pupil adjustment for 2003-04 be calculated using the amount districts would have received under current law in 2002-03 (an estimated \$230.67) plus the inflation adjustment.

2. Set the per pupil adjustment under revenue limits for 2002-03 equal \$210. Delete \$11.9 million in 2002-03 in general school aids in order to adjust two-thirds funding of partial school revenues. Under this alternative, the per pupil adjustment for 2003-04 would be calculated using \$210 plus the inflation adjustment.

<b>Alternative 2</b>	<b>GPR</b>
2001-03 FUNDING	- \$11,900,000

3. Maintain current law.

**B. Choice and Charter Program Adjustment**

1. In addition to Alternative A1, specify that the per pupil adjustment for the choice and charter program be equal to the per pupil adjustment taken by Milwaukee Public Schools.

2. Set the per pupil adjustment for the choice and charter programs equal to \$210. Delete \$339,000 (\$244,000 from the choice program, \$57,000 from the charter program and \$38,000 from general school aids) and reduce estimated lapses by \$167,000 (\$110,000 for the choice program and \$57,000 for the charter program).

<b>Alternative 3</b>	<b>GPR</b>
2001-03 FUNDING	- \$339,000
2001-03 LAPSE	- \$167,000
2001-03 NET CHANGE	- \$172,000

3. Maintain current law (choice and charter per pupil payments would be adjusted by an estimated \$230.67).

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