



Legislative Fiscal Bureau

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

March 4, 2002

Joint Committee on Finance

Paper #1225

State Support of K-12 Public Education (DPI)

CURRENT LAW

The state has a goal of funding two-thirds of K-12 partial school revenues. For the purposes of the two-thirds funding goal, state funding is defined as the sum of state general and categorical school aids, the school levy tax credit and the general program operations appropriation for the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired. With certain exceptions, partial school revenues is defined as the sum of state school aids and property taxes levied for school districts. The two-thirds funding commitment is calculated on a statewide basis; the level of state aid received by an individual district may be higher or lower than two-thirds depending on the district's per member shared cost and equalized value, as well as the amount of funding the district receives through categorical aids and the levy credit.

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 2001-02, this per pupil increase is \$226.68. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, carryover of unused revenue 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.

GOVERNOR

A summary of state support of K-12 education under the Governor's proposal in 2002-03 is shown in Table 1.

TABLE 1

**State Support for K-12 Education -- Governor's Proposal
(\$ in Millions)**

	<u>2002-03</u>
State Funding:	
General School Aids	\$4,200.9
Categorical Aids	575.4
School Levy Credit	469.3
State Residential Schools	<u>10.4</u>
 Total	 \$5,256.0
 Partial School Revenues	 \$7,884.1
State Share	66.67%

DISCUSSION POINTS

1. State aid to K-12 public schools is estimated to be approximately 40 percent of general fund expenditures in 2002-03. Given the magnitude of state school aid expenditures, the Committee could choose to make additional reductions in this area to address the projected general fund deficit. Alternatives to reduced state funding for K-12 education, however, could impact the statewide school property tax levy or total school district resources.

2. One alternative for reducing state general fund expenditures for K-12 would be to reduce the percent of partial school revenues that the state supports. Based on current estimates, each percentage point reduction in the state funding goal under the bill would reduce general school aids expenditures by \$78.9 million in 2002-03. To address the projected deficit and maintain the required statutory balance solely by reducing the state share of partial school revenues, the percentage of state support would have to be reduced to 52 percent, which would reduce general fund expenditures by \$1.156 billion compared to the bill. Table 2 outlines the reduction in general school aids associated with various percentages of state support.

TABLE 2

**Reduction to General School Aids under Various Levels of State Support
(\$ in Millions)**

<u>Percent State Support</u>	<u>Reduction in General School Aids</u>
66%	\$52.5
65	131.3
64	210.1
63	288.9
62	367.7
61	446.5
60	525.3

3. School district revenue limits restrict the amount of revenue obtained through the combination of general school aids, the property tax levy and computer aid. Under revenue limits, any decrease in the amount of general school aids could be offset by an increase in the school property tax levy. Thus, under this option, school districts would have the ability to offset any state aid loss through the property tax levy. This would maintain their resource base under revenue limits, but the result would be a higher property tax levy than anticipated under current law.

4. Rather than change the percentage of state support, the Committee could also set the general school aids appropriation for 2002-03 equal to the amount appropriated for 2001-02, which is \$4.052 billion. This would reduce general school aids funding by \$149,376,300 compared to the bill, and result in state support of approximately 64.5% of partial school revenues. Under current law revenue limits, school districts would have the ability under this alternative as well to offset any state aid loss through the property tax levy.

5. If the Committee wishes to reduce general fund expenditures for state support for K-12 education while mitigating any increase in the levy, the per pupil adjustment to revenue limits could be reduced. An option relating to setting the per pupil adjustment equal to \$210 in 2002-03 is discussed in the issue paper dealing with the Governor's recommendation on the per pupil adjustment. The Committee could choose to set the adjustment lower. Table 3 shows the reduction in partial school revenues and the corresponding reduction in state two-thirds funding that would result from setting the adjustment at different levels in 2002-03. The table also shows the per pupil percent increase for the highest and lowest-revenue districts as well as statewide under each adjustment.

TABLE 3**Reductions to Partial School Revenues under Various Per Pupil Adjustments
(\$ in Millions)**

<u>Per Pupil Adjustment</u>	<u>Reduction in Partial School Revenues</u>	<u>Reduction in General School Aids</u>	<u>Per Pupil Percent Increase</u>		
			<u>Highest Revenue District</u>	<u>Statewide</u>	<u>Lowest Revenue District</u>
\$200	\$26.5	\$17.7	1.5%	2.6%	3.0%
150	69.7	46.5	1.2	2.0	2.2
100	112.2	74.8	0.8	1.3	1.5
50	153.4	102.3	0.4	0.7	0.8

6. While reducing the per pupil adjustment would have the effect of decreasing state school aids expenditures as well as the school property tax levy, it would have the effect of reducing the overall resource base of school districts statewide. The reductions to school district resources are shown in the Table 3 as the reductions to partial school revenues.

7. Another option for reducing state support of K-12 education is to reduce categorical funding. Categorical aids are provided to reimburse costs for a specific program or specific purpose. In 2002-03, \$530.0 million GPR is currently appropriated for various categorical aid programs. Nearly 90 percent of GPR categorical aid funding, or \$468.5 million, is provided in the five largest GPR categorical appropriations: special education, SAGE, TEACH educational technology block grants, pupil transportation and tuition payments. If the Committee would reduce those five programs by 10% each, for example, categorical expenditures would be reduced by \$46.8 million. Under the two-thirds funding calculation, if categorical aids are decreased, there is an increase in general school aids equal to one-third of the decrease in categorical aid in order to maintain two-thirds funding of partial school revenues. Thus, the \$46.8 categorical reduction would be offset by a \$15.6 million increase in general school aids, for a net GPR reduction of \$31.2 million. Under revenue limits, the increase in general school aids would reduce school property taxes; however, school district resources would be reduced by the full amount of any categorical aid reduction. Table 4 shows the base funding for the five largest GPR categorical aid appropriations and the effect of a 10% reduction on available funding.

TABLE 4

Effect of a 10% Reduction in the Largest GPR Categorical Aid Appropriations

	2002-03 <u>Base Funding</u>	10% <u>Reduction</u>	Base Less <u>Reduction</u>
Special Education	\$315,681,400	\$31,568,100	\$284,113,300
SAGE	90,290,600	9,029,100	81,261,500
TEACH Block Grants	35,000,000	3,500,000	31,500,000
Pupil Transportation	17,742,500	1,774,300	15,968,200
Tuition Payments	<u>9,741,000</u>	<u>974,100</u>	<u>8,766,900</u>
TOTAL	\$468,455,500	\$46,845,600	\$421,609,900

8. Several factors should be considered in reducing categorical aid funding. Special education and pupil transportation funding are prorated, given that eligible costs for school districts statewide already exceeds available funding. Reducing these appropriations would further increase the proration. Programs that are estimated to be fully funded, such as SAGE and tuition payments, may be prorated if funding is reduced. Federal law contains provisions for state maintenance of special education support, under which federal special education funding could be reduced if the state does not maintain special education funding at prior year levels. Also, in the most recent state Supreme Court decision on the constitutionality of the school finance system (Vincent v. Voight), the Court held that the right to an equal opportunity for a sound basic education must take into account districts with disproportionate numbers of special education students, economically-disadvantaged students and students with limited-English proficiency. Reducing funding for special education and SAGE could be considered inconsistent with that goal.

ALTERNATIVES TO BILL

While there are various options for reducing state support of K-12 public education, the following alternatives illustrate some of the possibilities discussed in this paper.

1. Set the level of state support of K-12 education at one of the following percentages, and delete the corresponding amount of general school aids funding to adjust to the percentage:

- a. 66% -\$52.5 million GPR
- b. 65% -131.3 million GPR
- c. 64% -210.1 million GPR
- d. 63% -288.9 million GPR
- e. 62% -367.7 million GPR
- f. 61% -446.5 million GPR
- g. 60% -525.3 million GPR

2. Set the general school aids appropriation for 2002-03 at \$4,051,569,600, the same level of funding appropriated in 2001-02.

Alternative 2	GPR
2001-03 FUNDING	- \$149,376,600

3. Set the per pupil adjustment under revenue limits equal to one of the following amounts in 2002-03 and delete the corresponding amount of general school aids funding to adjust state two-thirds funding:

a.	\$200	-\$17.7 million GPR
b.	150	-46.5 million GPR
c.	100	-74.8 million GPR
d.	50	-102.3 million GPR

4. Reducing funding for the following categorical aid appropriations by one of the following percentages in 2002-03, and provide the corresponding amount of general school aids to maintain state two-thirds funding.

	2002-03 Funding	a. 5%	b. 10%	c. 15%	d. 20%
Special Education	\$315,681,400	-\$15,784,100	-\$31,568,100	-\$47,352,200	-\$63,136,300
SAGE	90,290,600	-4,514,500	-9,029,100	-13,543,600	-18,058,100
TEACH Block Grants	35,000,000	-1,750,000	-3,500,000	-5,250,000	-7,000,000
Pupil Transportation	17,742,500	-887,100	-1,774,300	-2,661,400	-3,548,500
Tuition Payments	<u>9,741,000</u>	<u>-487,100</u>	<u>-974,100</u>	<u>-1,461,200</u>	<u>-1,948,200</u>
TOTAL	\$468,455,500	-\$23,422,800	-\$46,845,600	-\$70,268,400	-\$93,691,100
General School Aids Offset		\$7,807,600	\$15,615,200	\$23,422,800	\$31,230,400
Net GPR Reduction		-\$15,615,200	-\$31,230,400	-\$46,845,600	-\$62,460,700

Prepared by: Russ Kava