



## Legislative Fiscal Bureau

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

---

May 20, 2003

Joint Committee on Finance

Paper #605

### **State Two-Thirds Funding and General School Aids (DPI -- General School Aids and Revenue Limits)**

[LFB 2003-05 Budget Summary: Page 348, #1, #2, and #3]

---

#### **CURRENT LAW**

State support of K-12 education under the two-thirds funding commitment is 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 define both the numerator and denominator of the two-thirds state funding calculation. The numerator is 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) is, with certain exceptions, the sum of state general and categorical school aids and gross property taxes levied, including computer aid, for school districts.

Each year by May 15, the Departments of Public Instruction and Administration and the Legislative Fiscal Bureau must jointly certify to the Joint Committee on Finance an estimate of the amount necessary in the general school aids appropriation which, in combination with the amounts provided in the other specified state aid, levy credit and state residential school general program operations appropriations, would achieve two-thirds funding of partial school revenues in the following school year. In every even-numbered fiscal year, the amount appropriated for general school aids is set by law, in the budget bill or separate legislation. In every odd-numbered fiscal year, the Joint Committee on Finance must, by June 30, determine the amount appropriated for general school aids in the following school year. The general school aids appropriation is a sum-sufficient appropriation from the general fund equal to the amount determined by law in the even-numbered fiscal years and equal to the amount determined by Joint Finance in odd-numbered fiscal years.

## GOVERNOR

Eliminate the requirement that the state fund two-thirds of partial school revenues. Delete the May 15 joint certification requirement for DPI, DOA and LFB. Also, delete the related statutory definitions of partial school revenues and state aid used in the certification process. Delete the June 30 Joint Finance determination process required in odd-numbered fiscal years. In addition, modify the general school aids appropriation to be an annual sum-certain appropriation rather than a sum-sufficient appropriation.

Provide \$40,000,000 in 2003-04 and \$60,000,000 in 2004-05 from the transportation fund in a newly-created annual appropriation for the payment of equalization aid. Specify that provisions of current law that apply to the payment of equalization aid from the current GPR appropriation would also apply to the proposed SEG appropriation. Under the bill, the total amount from both the GPR and SEG appropriations would be distributed together under the equalization aid formula. Create an exception for these SEG payments from the current law provision that requires all payments from the transportation fund to be made only on the order of the Secretary of DOT.

Table 1 summarizes the appropriation levels for each category of state support under SB 44 and the estimates of the state share of partial school revenues in each year of the 2003-05 biennium using the current law definition of partial school revenues and incorporating the provisions of the budget bill.

**TABLE 1**

**State Support for K-12 Education  
(\$ in Millions)**

|                                   | 2002-03<br>Base Year | Governor's Proposal |           | Change to<br>Base Year Doubled |         |
|-----------------------------------|----------------------|---------------------|-----------|--------------------------------|---------|
|                                   |                      | 2003-04             | 2004-05   | Amount                         | Percent |
| <u>State Funding:</u>             |                      |                     |           |                                |         |
| General School Aids               | \$4,200.9            | \$4,240.9           | \$4,260.9 | \$100.0                        | 1.2%    |
| Categorical Aids                  | 574.2                | 534.8               | 539.5     | -74.1                          | -6.5    |
| School Levy Tax Credit            | 469.3                | 469.3               | 469.3     | 0.0                            | 0.0     |
| State Residential Schools         | 9.9                  | 9.1                 | 9.1       | -1.6                           | -8.1    |
| Total                             | \$5,254.3            | \$5,254.1           | \$5,278.8 | \$24.3                         | 0.2%    |
| Estimated Partial School Revenues | \$7,919.2            | \$8,114.5           | \$8,379.1 |                                |         |
| Estimated State Share             | 66.35%               | 64.75%              | 63.00%    |                                |         |

## DISCUSSION POINTS

**1.** The commitment to increase the state's average share of K-12 revenues to 66.7% was established in 1993 Act 437 (the 1993-95 budget adjustment act). Increases in general school

aids funding were provided in 1994-95 and 1995-96 in an attempt to hold the estimated school operating levy constant, on a statewide basis, for those years. The state first provided two-thirds funding of partial school revenues in the 1996-97 fiscal year, with an increase of over \$1.0 billion provided in the appropriations for state support. Table 2 shows the amounts provided for state support of K-12 education and the gross school levy for each year since 1991-92.

**TABLE 2**  
**State Support for K-12 Education and Gross School Levies**  
**(\$ in Millions)**

| <u>Fiscal Year</u> | <u>State Support</u> |  |                | <u>Gross School Levy</u> |  |                |
|--------------------|----------------------|--|----------------|--------------------------|--|----------------|
|                    | <u>Funding</u>       | <u>Change to Prior Year</u><br><u>Amount</u> | <u>Percent</u> | <u>Levy</u>              | <u>Change to Prior Year</u><br><u>Amount</u> | <u>Percent</u> |
| 1991-92            | \$2,269.7            | N.A.   | N.A.           | \$2,568.0                | N.A.   | N.A.           |
| 1992-93            | 2,365.3              | \$95.6                                       | 4.2%           | 2,843.8                  | \$275.8                                      | 10.7%          |
| 1993-94            | 2,505.9              | 140.6  | 5.9            | 2,988.1                  | 144.3  | 5.1            |
| 1994-95            | 2,781.3              | 275.4  | 11.0           | 2,995.7                  | 7.6  | 0.3            |
| 1995-96            | 3,024.5              | 243.2  | 8.7            | 3,023.6                  | 27.9   | 0.9            |
| 1996-97            | 4,035.4              | 1,010.9                                      | 33.4           | 2,528.1                  | -495.5                                       | -16.4          |
| 1997-98            | 4,274.0              | 238.6  | 5.9            | 2,590.4                  | 62.3   | 2.5            |
| 1998-99            | 4,458.7              | 184.7  | 4.3            | 2,735.8                  | 145.4  | 5.6            |
| 1999-00            | 4,695.6              | 236.9  | 5.3            | 2,795.2                  | 59.4   | 2.2            |
| 2000-01            | 4,932.6              | 237.0  | 5.0            | 2,927.8                  | 132.6  | 4.7            |
| 2001-02            | 5,081.8              | 149.2  | 3.0            | 3,071.8                  | 144.0  | 4.9            |
| 2002-03            | 5,254.4              | 172.6  | 3.4            | 3,192.0                  | 120.2  | 3.9            |

2. As the Committee deliberates on funding for K-12 education in the 2003-05 biennium, a number of issues can be considered, including the level of state funding, the level of local funding, the level of school district resources, the method of setting the general school aids appropriation, and the appropriateness of providing funding from the transportation fund for general school aids.

### **Level of State Funding**

3. The level of state resources devoted to the support of K-12 education increased significantly under the two-thirds commitment. In the years immediately prior to 1994-95, K-12 GPR school aids and the school levy credit constituted approximately 34 percent of total state general fund appropriations. This percentage increased to 35.4% in 1994-95 and 36.8% in 1995-96 as the state provided increases in school aids in amounts estimated to hold the school operating levy constant in those years. Since the start of two-thirds funding in 1996-97, this percentage has increased from 41.5% in 1996-97 to 44.4% in 2001-02.

4. In the most recent Supreme Court case regarding the constitutionality of the school finance system (Vincent v. Voight), 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." Under s. 121.01 of Wisconsin Statutes, it is declared that it is "the policy of this state the education is a state function."

5. Also in the Vincent decision, the Court 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. The higher level of general fund expenditures devoted to K-12 education under state's two-thirds funding commitment could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regards to K-12 education. To maintain this level of resources, the Committee could choose to maintain the current law two-thirds funding framework. Based on the estimates shown in Table 1 above, an additional \$155 million in 2003-04 and \$307 million in 2004-05 in general school aids would be needed above the general aids amounts already provided in SB 44 to fund two-thirds of partial school revenues.

7. The administration indicates, however, that, due to state fiscal constraints, it is no longer feasible to maintain the state's two-thirds funding commitment. Further, administration officials also indicate that repeal of the two-thirds commitment would be a first step in establishing a new school funding system. In his State of the State address in January of 2003, the Governor announced that he would be forming a Governor's task force on education financing to comprehensively examine and make recommendations to reform the way the state funds K-12 education. As such, it could be judged that it is appropriate to repeal the two-thirds commitment at this time and provide the levels of general school aids funding as proposed in SB 44.

8. 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. One method of reducing state support for K-12 education would be to reduce funding in categorical aid appropriations. Another method would be to reduce general school aids funding. Under the bill, the general school aids appropriation would be treated similarly to most other local assistance appropriations, with the funding level for the aids set in the overall budget process. As such, the Committee could choose to reduce the general fund appropriation for general aids by a particular amount. While the appropriation could be reduced by any amount, several options to reduce general aids are presented as alternatives in this paper.

9. In Vincent, the Court 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.

### **Level of Local Funding**

10. Under s. 121.01 of the statutes, it is declared that it is the policy of the state "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." Since the imposition of revenue limits in 1993-94, the school levy has grown at a slower rate than it did prior to revenue limits. Further, the school levy decreased significantly in 1996-97 with the start of two-thirds funding. It could be argued that two-thirds funding is achieving the goal of property tax relief.

11. While revenue limits would remain in place under the bill, concerns have been raised about the magnitude of potential increases to the school property tax levy if the state no longer funds two-thirds of partial school revenues. Under revenue limits, school districts would have the authority to replace any reduction in general school aids with revenue from the property tax levy.

12. Under current law two-thirds funding and revenue limits, it is estimated that the school property tax levy would increase by \$103.7 million in 2003-04 and by \$130.4 million in 2004-05 compared to the prior year levy. Under the bill, using the assumption that 85 percent of the shortfall in general aids results in increased school property tax levies, it is estimated that school levies would increase by \$235.5 million in 2003-04 and \$259.5 million in 2004-05 compared to the prior year levy.

13. To mitigate any increase in the school property tax levy, the Committee could modify the per pupil adjustment under revenue limits. While the per pupil adjustment could be set at any level, several options to reduce it can be considered. The interaction of the per pupil adjustment with the proposed changes to the low-revenue ceiling under SB 44 (a proposed increase from \$6,900 in 2002-03 to \$7,400 in 2003-04 and \$7,800 in 2004-05, which is considered in a separate paper) must also be considered when projecting the possible effects on the levy.

14. One option would be to set the per pupil adjustment equal to half the per pupil adjustment anticipated under current law. With the general aids funding level and low-revenue ceiling provisions under the bill, setting the per pupil adjustment at \$118 in 2003-04 and \$121 in 2004-05 (50% of current law) would reduce partial school revenues, and thus the school property tax levy, by an estimated \$74.2 million in 2003-04 and \$127.9 million in 2004-05. If the low-revenue ceiling were maintained at its current law levels, this option would reduce partial school revenues, and thus the school property tax levy, by an estimated \$95.9 million in 2003-04 and \$202.8 million in 2004-05.

15. Another option would be to set the per pupil adjustment at an amount that would limit the increase in the levy to the amounts that would be anticipated under current law. If the low-revenue ceiling were maintained at its current law levels, setting the per pupil adjustment at \$75 in 2003-04 and \$100 in 2004-05 would reduce partial school revenues by an estimated \$133.2 million in 2003-04 and \$262.7 million in 2004-05. With the general aids funding level and low-revenue ceiling provisions under the bill, setting the per pupil adjustment at \$40 in 2003-04 and in 2004-05 would reduce partial school revenues, and thus the school property tax levy, by an estimated \$130.4 million in 2003-04 and \$212.3 million in 2004-05. (A change to the proposed level of the low-revenue ceiling would be needed to further reduce the 2004-05 levy increase to current law

estimates.)

16. To maintain a basically constant statewide property tax levy, the Committee could also choose to set the per pupil adjustment equal to \$0 in both 2003-04 and 2004-05. (To maintain the constant levy, the low-revenue ceiling would need to be maintained at its current law levels.) With the general aids funding level and low-revenue ceiling provisions under the bill, setting the per pupil adjustment at \$0 in 2003-04 and in 2004-05 would reduce partial school revenues, and thus the school property tax levy, by an estimated \$198.1 million in 2003-04 and \$410.3 million in 2004-05.

17. If the Committee reduced the per pupil adjustment in 2004-05, the question of how to treat the indexing provisions of the adjustment for 2005-06 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 2005-06 be set at the level it would have been equal to had the current law indexing provisions remained in effect (an estimated \$247). Alternatively, the Committee could also resume the inflation indexing in 2005-06 starting from a lower 2004-05 per pupil adjustment.

### **Level of School District Resources**

18. In 2002-03, it is estimated that school districts will receive nearly 90% of their revenue from state aid and the property tax levy, with the remainder coming from federal aid and other local nonproperty tax revenues. The level of state aid and property tax levy for school districts thus significantly affects the total level of resources available to school districts for their staffing and programming.

19. Other than the proposed change to the low-revenue ceiling, the current law framework for revenue limits would be retained under SB 44. Thus, districts would be able to maintain basically the same overall resource base, although the state share of that resource base would be reduced and the local share would increase.

20. 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.

21. Given state and local fiscal constraints, however, 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.

## **Method for Determining the General School Aids Level**

22. Under the current two-thirds funding commitment, the level of general school aids funding has been set based on the statutory definition of partial school revenues. Under the current certification procedure, the three offices estimate the various components of partial school revenues (such as enrollment changes, the per pupil adjustment, and the referenda debt levy) to determine what level of general aids funding is needed to maintain two-thirds of partial school revenues in the following school year. Since the start of two-thirds, the funding level for general aids in each year has been set at the level estimated by the three offices.

23. The general school aids appropriation is treated differently from most other local assistance aids programs under this approach. The general school aid level has been set as two-thirds of estimated partial school revenues, rather than based on a legislative decision to set the aid at a certain amount, which is the case for other aid appropriations such as shared revenue and special education aids. Legislative changes to the general school aids amount have tended to focus on modifications to the definition of partial school revenues, such as the addition of the state residential schools or exclusion of a portion of the referenda-approved debt levy, rather than on the overall level of aids funding.

24. It could be argued that setting a goal to fund a specified percentage of partial school revenues is important, in terms of: (a) the level of state resources that have been provided to school districts; (b) the property tax relief that has been provided as a result of increased state funding; and (c) the symbolic commitment of the state to fund its constitutional and statutory responsibilities regarding education. By establishing a certain percentage of state support, it improves the likelihood that the state will continue to provide increases in school aid as school costs increase. Under other sum certain categorical school aid appropriations, such as special education and bilingual-bicultural education, state aid has not increased commensurate with those costs, resulting in a lower rate of reimbursement for school districts on those costs. Without some statutorily-specified level of state support, it is likely that the statewide rate of reimbursement for districts' shared costs under the equalization aid formula would decline in a similar manner.

25. To address these concerns, the Committee could choose to maintain an ongoing commitment to fund a lower percentage of partial school revenues. One alternative would be to provide general school aids on a sum certain basis at the levels appropriated under the bill for the 2003-05 biennium only and then, beginning in 2005-06, restore the current law statutory framework for the two-thirds funding goal, but with a state commitment to provide 63 percent of partial school revenues. The level of estimated state support provided under the bill in 2004-05 would then be provided on an ongoing basis into the 2005-07 biennium. While this would not preclude consideration of modifications to K-12 school financing as a result of the proposed Governor's task force or in subsequent legislation, it would maintain a specified level of state support in the absence of any other statutory changes.

26. However, the ongoing obligation to fund general aid at a specified percentage of partial school revenues has contributed significantly to the out-year commitments for the general fund in all of the biennial budget acts that have been passed since the inception of two-thirds

funding. The two-thirds goal has thus required the advanced commitment of a significant amount of general fund revenue growth for general aids. Such a system may not be sustainable on an ongoing basis, when revenue growth may periodically be unable to support such expenditures. Because of this, it may be desirable to have the general school aids funding level determined in each biennium through the budget process, based on available revenues and projected educational needs.

### **Use of Transportation Fund for School Aids**

27. Under the Governor's recommendations, the additional general school aids funding provided over the base year amount would be funded from the transportation fund. The administration argues that, since pupil transportation costs play a significant role in overall school costs, it is appropriate that the transportation fund provide some support of K-12 education.

28. Prior to 1997 Act 27 (the 1997-99 biennial budget act), the driver education aid and special education transportation aid appropriations were funded from the transportation fund. In that biennial budget act, the funding source for those categorical aid appropriations was converted from the transportation fund to the general fund. Since school aid appropriations have previously been funded from the transportation fund, it could be argued that it is appropriate to provide additional general school aid funding from the transportation fund.

29. The driver education aid and special education transportation aid appropriations, however, were more closely aligned with transportation-related purposes. General school aids are unrestricted aids that may or may not be used for transportation-related purposes. While it may have been appropriate to provide transportation fund moneys for clearly-delineated categorical aid programs, one could argue that it is undesirable to provide this same funding for unrestricted aid payments.

30. One alternative to the Governor's recommendation would be to provide the transportation fund moneys for general school aids on a one-time basis in recognition of the fiscal constraints faced by the state. The transportation fund appropriation for equalization aid and related provisions could be sunset at the end of the 2003-05 biennium. Under this alternative, the funding would not be part of the adjusted base for the 2005-07 biennial budget. The Governor and the Legislature could review the policy of providing school aids funding from the transportation fund in future biennia as part of the overall budget process.

## **ALTERNATIVES**

### **A. Eliminate State Two-Thirds Funding of Partial School Revenues**

1. Approve the Governor's recommendation to eliminate the requirement that the state fund two-thirds of partial school revenues. Delete the May 15 joint certification requirement for DPI, DOA and LFB. Also, delete the related statutory definitions of partial school revenues and state aid used in the certification process. Delete the June 30 Joint Finance determination process required in odd-numbered fiscal years. In addition, modify the general school aids appropriation to



be an annual sum-certain appropriation rather than a sum-sufficient appropriation.

2. Modify the Governor's recommendation, beginning in 2005-06, to restore the current law framework for the process of certifying and determining state two-thirds funding of partial school revenues, but specify that, beginning in 2005-06, the state provide 63% (rather than two-thirds) funding.

3. Delete provision. Provide \$155 million in 2003-04 and \$307 million in 2004-05 in general school aids to provide an estimated two-thirds of partial school revenues in the 2003-05 biennium.

|                                  |               |
|----------------------------------|---------------|
| <u>Alternative A3</u>            | <u>GPR</u>    |
| 2003-05 FUNDING (Change to Bill) | \$462,000,000 |

### **B. General School Aids Appropriation from the Transportation Fund**

1. Approve the Governor's recommendation to provide \$40,000,000 in 2003-04 and \$60,000,000 in 2004-05 from the transportation fund in a newly-created annual appropriation for the payment of equalization aid.

2. Modify the Governor's recommendation to specify that the transportation fund SEG be provided on a one-time basis in the 2003-05 biennium. Specify that no monies could be expended from the appropriation after June 30, 2005.

3. Delete provision.

|                                  |                 |
|----------------------------------|-----------------|
| <u>Alternative B3</u>            | <u>SEG</u>      |
| 2003-05 FUNDING (Change to Bill) | - \$100,000,000 |

### **C. General School Aids Appropriation from the General Fund**

1. Approve the Governor's recommendation to level fund general school aids from the general fund at \$4,200.9 million GPR annually.

2. Modify the Governor's recommendation to reduce the general school aids appropriation from the general fund by the following amount in each year of the 2003-05 biennium:

a. \$50 million annually.

|                                  |                 |
|----------------------------------|-----------------|
| <u>Alternative C2a</u>           | <u>GPR</u>      |
| 2003-05 FUNDING (Change to Bill) | - \$100,000,000 |

- b. \$100 million annually.

|   |                 |
|---|-----------------|
| <b>Alternative C2b</b>                  | <b>GPR</b>      |
| <b>2003-05 FUNDING</b> (Change to Bill) | - \$200,000,000 |

- c. \$150 million annually.

|   |                 |
|---|-----------------|
| <b>Alternative C2c</b>                  | <b>GPR</b>      |
| <b>2003-05 FUNDING</b> (Change to Bill) | - \$300,000,000 |

- d. \$200 million annually.

|   |                 |
|---|-----------------|
| <b>Alternative C2d</b>                  | <b>GPR</b>      |
| <b>2003-05 FUNDING</b> (Change to Bill) | - \$400,000,000 |

**D. Revenue Limit Per Pupil Adjustment**

1. Approve the Governor's recommendation to maintain the current law per pupil adjustments of an estimated \$236 in 2003-04 and \$241 in 2004-05.

2. Modify the Governor's recommendation to set the per pupil adjustment under revenue limits to one of the following amounts:

- a. \$118 in 2003-04 and \$121 in 2004-05
- b. \$75 in 2003-04 and \$100 in 2004-05
- c. \$40 in 2003-04 and \$40 in 2004-05
- d. \$0 in 2003-04 and \$0 in 2004-05

e. In addition to any of the per pupil amounts above, specify that the per pupil adjustment in 2005-06 would be set equal to the amount that it would have been had the current law indexing provisions applied in the 2003-05 biennium.

Prepared by: Russ Kava