



## Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #826

### General Aids for Technical College Districts (WTCS)

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#### CURRENT LAW

Of the \$1,058.0 million in total revenues received by the Wisconsin Technical College System (WTCS) districts in 2001-02, almost half (48.2%) was from property taxes. The remaining \$548.0 million consisted of state aid (13.2%), tuition and fees (12.1%), federal aid (9.1%), and self-financing operations and miscellaneous revenues (17.4%).

State aid is provided to WTCS districts in the form of unrestricted general aid and through categorical aids which support specific programs or services and for student grants. In 2002-03, \$118.4 million GPR is provided for state general aids, \$18.4 million GPR and \$0.5 million PR is appropriated for various categorical aid programs. General aids are distributed through a formula which takes into account each of the 16 district's costs, FTE students and equalized property valuation.

#### GOVERNOR

The appropriation for general aids to technical college districts would remain at the 2002-03 base level of \$118,415,000 GPR annually.

#### DISCUSSION POINTS

1. Of the \$281.8 million in total GPR state aid provided to WTCS districts in the 2001-03 biennium, \$236.8 million (or 84.0%) is distributed as general, unrestricted aids through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts. Districts with less property valuation behind each student receive a higher percentage of their aidable costs through the formula because they are less able to generate as much property tax revenue at a given mill rate than districts with higher property valuations. In addition to partially equalizing the revenue available for district programs, general aid is also provided as a form of

property tax relief and to address district needs not met by categorical aids, particularly operational costs.

2. The following table shows the amount appropriated for general aids to WTCS districts and the ratio of general aids to aidable costs since 1992-93. Aidable costs represent expenditures, including debt service, associated with providing postsecondary, vocational-adult and college parallel programs that are funded with property taxes and state general aids.

<u>Year</u>	<u>General Aid</u>	<u>% Change</u>	<u>Aidable Cost</u>	<u>% Change</u>	<u>Ratio of Aid to Cost</u>	<u>Change in CPI**</u>
1992-93	\$99,034,500	--	\$357,849,100	--	27.7%	3.0%
1993-94	104,454,200	5.5%	376,344,800	5.2%	27.8	3.0
1994-95	110,199,200	5.5	403,685,400	7.3	27.3	2.6
1995-96	110,199,200	0.0	432,228,200	7.1	25.5	2.8
1996-97	110,199,200	0.0	453,406,400	4.9	24.3	2.9
1997-98	111,852,200	1.5	475,291,400	4.8	23.5	2.3
1998-99	113,530,000	1.5	495,316,063	4.2	22.9	1.6
1999-00	115,945,000	2.1	526,617,352	6.3	22.0	2.2
2000-01	118,415,000	2.1	559,577,270	6.3	21.2	3.4
2001-02	118,415,000	0.0	598,898,193	7.0	19.8	2.8
2002-03*	118,415,000	0.0	649,843,500	8.5	18.2	2.3

\*Aidable cost is based on district estimates.

\*\*Consumer Price Index changes for calendar years 1992 through 2002.

3. As the table indicates, the state's share of aidable cost has declined from 27.7% to an estimated 18.2% in 2002-03. If funding for general aids is maintained at the current level and aidable costs were to increase by 7.0% per year, the state's share of aidable costs would decline to 15.9% by the end of the 2003-05 biennium. The increase in aidable costs has exceeded the rate of inflation, as measured by the consumer price index, while general aid increases have lagged the rate of inflation during the last eight years.

4. Since 1996-97, the state's property tax relief efforts have focused on elementary and secondary school aids. Most of the state's other major local aid programs have been frozen or have experienced modest increase at best while the Governor and Legislature have appropriated funds to meet the state's commitment to fund two-thirds of K-12 partial school revenues.

5. Under the Governor's proposal, funding for shared revenue and related programs would be reduced by \$70 million in 2004-05. Funding in that year was previously reduced by \$40 million in 2001 Act 109. For the UW System, SB 44 would reduce base GPR funding by \$250 million over the biennium although the UW could increase tuition revenue by \$150 million to offset a portion of this reduction. For K-12 public schools, the Governor proposes eliminating the state's commitment to fund two-thirds of partial school revenues. Under SB 44, funding for K-12 general school aids is an estimated \$155 million in 2003-04 and \$307 million in 2004-05 less than the amounts needed under two-thirds funding. However, SB 44 would provide increases of \$40 million in 2003-04 and \$60 million in 2004-05 from base level funding of \$4,200.9 million for K-12 general

school aids. Given the state's fiscal constraints and the Governor's proposed funding reductions for shared revenue and related programs, K-12 public schools, and the UW System, the Committee could consider reducing state general aid to WTCS.

6. Some may view the ability of most districts to increase the property tax levy as a reason for reducing current funding for state aid. Since WTCS districts have access to this local revenue source, the state could reduce general aids without denying WTCS additional revenues.

7. However, state aids play an important role in supporting the technical college system. General aids are used to equalize the fiscal capacities of the 16 districts to ensure that an adequate revenue base is available to fund technical education programs across the state. In addition, the growing dependence on the property tax to fund the system can result in fiscal inequities between those districts with higher local tax bases and those with lower tax bases. Furthermore, concerns can be raised regarding the increasing burden being placed on local taxpayers to fund a statewide mission of technical and occupational education and workforce development.

8. Under current law, WTCS district levies for all purposes except debt service cannot exceed 1.5 mills. For districts at the mill limit, increases in revenue are limited to increases in their equalized property values, and thus it is argued that particularly for these districts, there is a greater need for state aid. In 2002-03, three districts (Milwaukee, Southwest and Western) are at the mill limit. The mill limit was a greater concern in the late 1980s and early 1990s, when more than half of the districts were at the mill limit. Since 1992-93, equalized property valuations have increased by an average 7.7% annually statewide. This growth has allowed most districts to increase their property tax revenues while remaining at or below the limit. In 2002-03, the statewide average increase in property valuations was 7.3% with increases in individual districts ranging from a low of 1.8% (Southwest) to a high of 12.8% (Indianhead).

9. The anticipated impact on each technical college district of reduced general aid would differ. In each case, the impact depends on the ability and willingness of the district board to raise property taxes, reallocate resources among programs and services, or forego planned expansions of programs and services. The following fiscal factors determine how a district would respond to a decrease in general aid: how close the district is to the 1.5 mill rate limit; the anticipated relative increase in equalized property valuations in the district compared to operational cost increases; the impact of farmland use value assessment on a district's equalized property valuation; and concerns about the impact of mill rate increases on district bond ratings.

10. The districts that would experience the greatest impacts of a decrease in general aid are those that are already at or close to the 1.5 mill rate limit: Milwaukee, Southwest Wisconsin, and Western Wisconsin districts. These three districts comprised 27.7% of the statewide technical college FTE enrollment in 2001-02. The limited fiscal capacity of these three districts is further compounded by relatively low rates of increase in property valuation and, in Southwest and Western, reductions in the property tax base due to farmland use value assessment.

11. In addition, reducing general aid at a time of increased technical college enrollment due to economic restructuring and the continuing demand for skilled workers could limit the ability of all districts to maintain access and service quality. During the last five years, FTE enrollments have increased by a total of 14.9%, or an average of 2.8% annually. During the upcoming biennium, the WTCS expects to provide training and employment assistance to an increasing number of dislocated workers across Wisconsin. In order to accommodate the additional students, districts must expand the number of available course sections, as well as invest in technology and classroom equipment. In order to accommodate increased service cost while minimizing cost increases to students and state and local taxpayers, technical college districts' FY 2003-04 budget proposals, with a level funded state aid assumption, call for the internal reallocation or reduction of over \$22 million, which would result eliminating or reducing over 60 programs.

12. Reducing state aid would also amplify the impacts of proposed federal aid reductions. Federal aid currently accounts for 9.1% of WTCS funding. The President's administration has proposed reducing overall funding for the Carl Perkins program, which distributes funding through states to vocational colleges and school districts. In addition to the overall reduction, the proposal would shift funding within the Carl Perkins program away from vocational and post-secondary colleges to K-12 education.

13. Over the last ten years, it has been the growth in property values (and in turn property taxes) that has provided the largest source of additional funding to districts rather than increases in general aids or categorical aids. The WTCS statewide equalized value has increased greater than 7% annually during most of the past decade, although increases in categorical aids have somewhat lessened the impact of limited growth in general aids. However, most of the funding provided by categorical aids is targeted to support specific initiatives.

## ALTERNATIVES

1. Increase or decrease general aids to WTCS districts by one of the following percentages:

	Change to 2002-03 Base	GPR Funding (Change to Bill)		
		2003-04	2004-05	Total
a.	-3.0%	-\$3,552,500	-\$3,552,500	-\$7,105,000
b.	-2.0	-2,368,300	-2,368,300	-4,736,600
c.	-1.0	-1,184,200	-1,184,200	-2,368,400
d.	1.0	1,184,200	1,184,200	2,368,400
e.	2.0	2,368,300	2,368,300	4,736,600
f.	3.0	3,552,500	3,552,500	7,105,000

2. Maintain current law. Annual funding for general aids to WTCS districts would remain at \$118,415,000.

Prepared by: John Stott