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Joint Committee on Finance

Paper #505

State Support for K-12 Education and General School Aids Funding Level (DPI -- General School Aids and Revenue Limits)

[LFB 2013-15 Budget Summary: Page 363, #1; Page 366, #2]

CURRENT LAW

Article X, Section 3, of Wisconsin's Constitution specifies that the Legislature is responsible for the establishment of public school districts which are to be "as nearly uniform as practicable" and "free and without charge for tuition to all children." Under s. 121.01 of Wisconsin Statutes, it is declared that it is "the policy of this state that education is a state function" and "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." That section also states that "in order to provide reasonable equality of educational opportunity for all the children of this state, the state must guarantee that a basic educational opportunity be available to each pupil," with the state contributing to a district's educational program only if it meets state standards.

Under revenue limits, the amount of revenue a school district can raise from general school aids, computer aid, and property taxes is restricted. A district's base revenue in a given year is equal to the general aid, computer aid, and property tax revenues received in the prior school year. Base revenue is divided by the average of the district's enrollments in the prior three years to determine its base revenue per pupil. In 2012-13, a \$50 per pupil adjustment is added to each district's base revenue per pupil to determine its current year revenue per pupil. In 2013-14 and each year thereafter, no per pupil adjustment will be made to base revenue per pupil. Current year revenue per pupil is then multiplied by the average of the district's enrollments in the current and prior two years to determine the district's initial revenue limit. There are several adjustments that are made to the initial revenue limit, such as the low revenue and declining enrollment adjustments. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A district can also exceed its revenue limit by receiving voter approval at a referendum.

Under the low revenue adjustment, any district with base revenue per pupil, after adding the per pupil adjustment, that is less than \$9,000 per pupil in 2012-13 and \$9,100 per pupil in 2013-14 and each year thereafter receives an adjustment equal to the amount needed to raise their per pupil revenue to the \$9,000 or \$9,100 amount.

The general school aids appropriation funds equalization, integration, and special adjustment aid. (High poverty aid, which is also a form of general aid, is funded from a separate appropriation.) Almost all of the funding in the appropriation is distributed through the equalization aid formula. A major objective of the formula is tax base equalization. The formula operates under the principle of equal tax rate for equal per pupil expenditures. There is an inverse relationship between equalization aid and property valuations. Districts with lower per pupil property values receive a larger share of their costs through the formula than districts with higher per pupil property values.

One measure of state support of K-12 education is based on the concept of partial school revenues. The traditional definition of partial school revenues is the sum of state general and categorical aids and the gross school property tax levy, with certain exceptions. The traditional definition of state support is the sum of state general and categorical aids, the school levy and first dollar tax credits, and the general program operations appropriation for the Program for the Deaf and Center for the Blind.

GOVERNOR

Provide \$42,936,600 in 2013-14 and \$86,302,500 in 2014-15 for general school aids. Under the bill, general school aids funding would increase from \$4,293,658,000 in 2012-13 to \$4,336,594,600 in 2013-14 and \$4,379,960,500 in 2014-15. This would result in increases of 1.0% annually, compared to the prior year.

The bill would maintain the revenue limit provisions established in the 2011-13 biennial budget under which, in 2013-14 and each year thereafter, there would be no per pupil adjustment and a \$9,100 low revenue adjustment per pupil.

Table 1 shows the level of state support for K-12 education in 2012-13, using the traditional definitions of state support and partial school revenues, and the funding levels proposed by the Governor under the bill for the 2013-15 biennium.

TABLE 1**State Support for K-12 Education -- AB 40
(\$ in Millions)**

<u>State Funding</u>	2012-13	<u>Governor</u>		<u>Change to</u>	
	<u>Base Year</u>	<u>2013-14</u>	<u>2014-15</u>	<u>Base Year Doubled</u>	<u>Amount</u>
General School Aids	\$4,310.5	\$4,353.4	\$4,396.8	\$129.2	1.5%
Categorical Aids	653.9	612.0	677.9	-17.9	-1.4
School Levy/First Dollar Credit	897.4	897.4	897.4	0.0	0.0
State Residential Schools	<u>11.2</u>	<u>10.8</u>	<u>10.8</u>	<u>-0.8</u>	-3.6
Total	\$5,873.0	\$5,873.6	\$5,982.9	\$110.5	0.9%
Estimated Partial School Revenues	\$9,493.2	\$9,560.0	\$9,700.0		
Estimated State Share	61.9%	61.4%	61.7%		

DISCUSSION POINTS

1. In the most recent Supreme Court case regarding the constitutionality of the school finance system in 2000 (Vincent v. Voight), the Court held that the state school finance system did not violate either the uniformity clause or the equal protection clause of the state Constitution. In the Vincent decision, the Court also reaffirmed that "the Legislature is entitled to deference in its legislative policy involving fiscal-educational decisions." The Court also held that "so long as the Legislature is providing sufficient resources so that school districts offer students the equal opportunity for a sound basic education as required by the Constitution, the state school finance system will pass constitutional muster."

2. 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. The needs of other programs funded from the general fund (such as higher education, medical assistance, shared revenue, and corrections), as well as the overall size and condition of the state's general fund, must also be considered in determining the level of state support provided to K-12 education.

3. Under the bill, it is estimated that the appropriations for state support of K-12 education identified in Table 1 above will make up 38% to 39% of state general fund appropriations in each year of the 2013-15 biennium. This would include the general school aids increase proposed by the Governor and the net changes in all categorical aid appropriations under the bill.

4. On April 11, this office distributed a memorandum to Legislature on the estimated level of property taxes under the bill. In that memorandum, it was estimated that the statewide gross school levy would increase from \$4,656.1 million in 2012-13 to \$4,715.0 million in 2013-14 and \$4,765.0 million in 2014-15. These estimates represent year-over-year increases of \$58.9 million (1.3%) in 2013-14 and \$50.0 million (1.1%) in 2014-15.

5. On April 19, this office distributed a memorandum to the Legislature on options for the per pupil and low revenue adjustments in the 2013-15 biennium. That memorandum also provided additional information on the revenue limit factors under current law that lead to the projected increases in the gross school levy, even with no per pupil adjustment in the revenue limit calculation. These factors include changes in the debt levy, referenda, underlevy, low revenue adjustment, and prior year base revenue hold harmless adjustment.

6. The relatively large portion of the state general fund devoted to state support of K-12 education under the bill, along with the increases in state aid and estimated local levy, could be viewed as appropriate in light of the state's constitutional and statutory responsibilities with regard to K-12 education.

7. If the level of state and local funding provided to a particular district under the bill would be viewed as insufficient by the school board, that board would have the option to prioritize the operating budget of the district to maintain the programming which is most important to the stakeholders in the district. Further, current law allows a school district to exceed its revenue limit through referendum. The referendum option would ensure that a majority of the voters support a district's decision to spend at higher levels.

8. The Committee could also choose to modify the per pupil adjustment and low revenue adjustment to provide additional financial resources to school districts, based on the overall level of partial school revenues, state aid, and statewide levy that is judged to be appropriate. The alternatives presented in this paper are drawn from the April 19 memorandum referenced above.

9. A per pupil adjustment would provide a general increase in the financial resources of school districts. The April 19 memorandum, however, discussed how the restoration of the prior year base hold harmless adjustment in 2013-14 under current law would duplicate some portion of the revenue limit increase that districts with declining enrollment would otherwise receive from an increase in the per pupil adjustment.

10. Table 2 lists the changes in statewide revenue limit authority in each year of the 2013-15 biennium that would result under four options to modify the per pupil adjustment. For example, as shown in the first line of Table 2, if a \$50 per pupil adjustment were allowed in both 2013-14 and 2014-15, statewide revenue limit authority would increase by \$20 million in 2013-14 and \$61 million in 2014-15 compared to AB 40. This additional revenue limit authority would be funded from some combination of state general aid and local levy. For each of the per pupil adjustment amounts shown, four alternatives for additional general school aid funding can be considered relative to the amount of revenue limit authority generated: (a) none of the revenue limit authority funded with state aid (under which districts would have the ability under revenue limits to raise, in total, the indicated amounts from property taxes); (b) 50% state funded; (c) 61.5% state funded (consistent with the estimated level of total state support under the bill in each year); and (d) 100% state funded (under which there would be no property tax impact on a statewide basis compared to AB 40). Some other combination of state general aid and local levy could also be provided under any of the alternatives.

TABLE 2**Revenue Limit Authority Under Options to Modify
Per Pupil Adjustment (Change to Bill)**

	Change in Revenue Limit Authority (\$ in Millions)		
	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
	\$50/\$50 per pupil (Alt. B1)	\$20	\$61
\$100/\$100 per pupil (Alt. B2)	49	132	181
\$150/\$150 per pupil (Alt. B3)	82	207	289
\$200/\$200 per pupil (Alt. B4)	120	288	408

11. The Committee could also consider alternatives to increase the low revenue adjustment. This adjustment is intended to decrease the disparity between low-revenue and high-revenue districts in the state by providing additional revenue limit authority to low-revenue districts.

12. Table 3 shows the changes in statewide revenue limit authority in each year of the biennium that would result under five alternatives related to the low revenue adjustment. The per pupil amounts shown for the low revenue adjustment are set relative to the indicated per pupil adjustment to provide approximately \$15 to \$20 million in additional revenue limit authority, in total, to low revenue districts over the biennium. For example, if a \$50 per pupil adjustment and a \$9,150 low revenue adjustment were allowed in 2013-14 and a \$50 per pupil adjustment and a \$9,250 low revenue adjustment were allowed in 2014-15, statewide revenue limit authority would increase by \$24 million in 2013-14 and \$71 million in 2014-15 compared to AB 40. As with the examples in Table 2, this additional revenue limit authority would be funded from some combination of state general aid and the local levy. The same four state funding options (0%, 50%, 61.5%, and 100%) can be considered for each of the alternatives shown.

TABLE 3**Revenue Limit Authority Under Options to Modify
Per Pupil and Low Revenue Adjustments (Change to Bill)**

	Change in Revenue Limit Authority (\$ in Millions)		
	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
	\$0/\$0 per pupil, \$9,150/\$9,200 low revenue (Alt. B5)	\$5	\$11
\$50/\$50 per pupil, \$9,150/\$9,250 low revenue (Alt. B6)	24	71	95
\$100/\$100 per pupil, \$9,200/\$9,350 low revenue (Alt. B7)	55	145	200
\$150/\$150 per pupil, \$9,250/\$9,450 low revenue (Alt. B8)	88	221	309
\$200/\$200 per pupil, \$9,300/\$9,550 low revenue (Alt. B9)	128	303	431

13. If the Committee modifies the per pupil adjustment in the 2013-15 biennium, it should also decide whether to continue that adjustment amount into the 2015-17 biennium or not.

Under one alternative, the Committee could specify that there be no per pupil adjustment beginning in 2015-16 and each year thereafter (Alternative C1). This would be similar to the approach used in the 2011-13 biennial budget act.

14. The Committee could also specify that the per pupil adjustment in 2014-15 would also apply to subsequent years (Alternative C2). This would be similar to the approach used in biennial budget acts prior to the 2011-13 biennium. Under either alternative, the 2015-17 Legislature would be able to change the law to modify the per pupil adjustment or other aspects of revenue limits. This set of alternatives would, however, specify what the per pupil adjustment would be absent a subsequent change in the law.

ALTERNATIVES

A. Governor's Recommendation

1. Approve the Governor's recommendation to provide \$42,936,600 in 2013-14 and \$86,302,500 in 2014-15 for general school aids.
2. Delete provision.

ALT A2	Change to Bill Funding
GPR	- \$129,239,100

B. Per Pupil and Low Revenue Adjustments

1. Set the per pupil adjustment under revenue limits at \$50 in 2013-14 and 2014-15, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	10,000,000	30,500,000	40,500,000
c. 61.5% state funded	12,300,000	37,515,000	49,815,000
d. 100% state funded	20,000,000	61,000,000	81,000,000

2. Set the per pupil adjustment under revenue limits at \$100 in 2013-14 and 2014-15, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	24,500,000	66,000,000	90,500,000
c. 61.5% state funded	30,135,000	81,180,000	111,315,000
d. 100% state funded	49,000,000	132,000,000	181,000,000

3. Set the per pupil adjustment under revenue limits at \$150 in 2013-14 and 2014-15, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	41,000,000	103,500,000	144,500,000
c. 61.5% state funded	50,430,000	127,305,000	177,735,000
d. 100% state funded	82,000,000	207,000,000	289,000,000

4. Set the per pupil adjustment under revenue limits at \$200 in 2013-14 and 2014-15, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	60,000,000	144,000,000	204,000,000
c. 61.5% state funded	73,800,000	177,120,000	250,920,000
d. 100% state funded	120,000,000	288,000,000	408,000,000

5. Maintain the bill provision providing no per pupil adjustment in 2013-14 and 2014-15 and set the low revenue adjustment at \$9,150 per pupil in 2013-14 and \$9,200 in 2014-15 and each year thereafter, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	2,500,000	5,500,000	8,000,000
c. 61.5% state funded	3,075,000	6,765,000	9,840,000
d. 100% state funded	5,000,000	11,000,000	16,000,000

6. Set the per pupil adjustment under revenue limits at \$50 in 2013-14 and 2014-15 and set the low revenue adjustment at \$9,150 per pupil in 2013-14 and \$9,250 in 2014-15 and each year thereafter, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	12,000,000	35,500,000	47,500,000
c. 61.5% state funded	14,760,000	43,665,000	58,425,000
d. 100% state funded	24,000,000	71,000,000	95,000,000

7. Set the per pupil adjustment under revenue limits at \$100 in 2013-14 and 2014-15 and set the low revenue adjustment at \$9,200 per pupil in 2013-14 and \$9,350 in 2014-15 and each year thereafter, and provide one of the following levels of additional GPR funding for general

school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	27,500,000	72,500,000	100,000,000
c. 61.5% state funded	33,825,000	89,175,000	123,000,000
d. 100% state funded	55,000,000	145,000,000	200,000,000

8. Set the per pupil adjustment under revenue limits at \$150 in 2013-14 and 2014-15 and set the low revenue adjustment at \$9,250 per pupil in 2013-14 and \$9,450 in 2014-15 and each year thereafter, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	44,000,000	110,500,000	154,500,000
c. 61.5% state funded	54,120,000	135,915,000	190,035,000
d. 100% state funded	88,000,000	221,000,000	309,000,000

9. Set the per pupil adjustment under revenue limits at \$200 in 2013-14 and 2014-15 and set the low revenue adjustment at \$9,300 per pupil in 2013-14 and \$9,550 in 2014-15 and each year thereafter, and provide one of the following levels of additional GPR funding for general school aids for the indicated state support of the revenue limit authority generated by those adjustments:

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial</u>
a. 0% state funded	\$0	\$0	\$0
b. 50% state funded	64,000,000	151,500,000	215,500,000
c. 61.5% state funded	78,720,000	186,345,000	265,065,000
d. 100% state funded	128,000,000	303,000,000	431,000,000

10. Take no action.

C. Per Pupil Adjustments in 2015-16 and Thereafter

1. In addition to any of the alternatives to modify the per pupil adjustment, specify that there would be no per pupil adjustment in 2015-16 and each year thereafter.

2. In addition to any of the alternatives to modify the per pupil adjustment, specify that the per pupil adjustment in 2014-15 would also apply in each year thereafter.

3. Take no action.

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