



**WISCONSIN LEGISLATIVE COUNCIL
STAFF MEMORANDUM**

Memo No. 6

TO: MEMBERS OF THE SPECIAL COMMITTEE SCHOOL ON SAFETY

FROM: Russ Whitesel, Senior Staff Attorney, and Melissa Schmidt, Staff Attorney

RE: Provisions Relating to School Revenue Limits

DATE: November 5, 2008

The Special Committee heard testimony concerning the restrictions placed on schools by the state revenue limits. The purpose of this Memo is to provide a brief background on the subject of school aids and to provide information on several broad approaches that have been proposed recently as part of the biennial budget process. The descriptions are followed by a series of questions for the Special Committee to consider in making any decisions relating to revenue limits.

A. BACKGROUND

1. Sources of State Aid

Under the applicable state statutes, the state provides school districts with financial assistance to achieve two basic policy goals: (1) reduce the reliance on the local property tax as a source of revenue for educational programs; and (2) guarantee that a basic educational opportunity is available to all pupils regardless of the local fiscal capacity of the district in which they reside.

Wisconsin school districts derive their revenue through four major sources: (1) state aid; (2) property tax; (3) federal aid; and (4) other nonproperty tax revenue such as fees and interest earnings.

The cost of elementary and secondary education is supported by the state through three different methods. First, unrestricted **general aids** are provided through a formula that distributes aid on the basis of the relative fiscal capacity of each school district as measured by the district's per pupil value of taxable property. This formula generally is known as either the "general school aid formula" or the "equalization aid formula." In addition, the Legislature established other general school aid programs associated with the equalization formula.

The second source of state support is **categorical aid**, which partially funds specific program costs such as special education, pupil transportation, class size reduction, and driver education. Categorical aid is either paid on a formula basis or awarded as grants.

The third source of state support is the state **school levy tax credit**. Although the school levy tax credit is considered school aid, this aid is paid to municipalities to offset the property tax rather than being paid directly to school districts.

The current school aid formula, upheld by the State Supreme Court as recently as July 2000, operates under the principle of equal tax rate for equal per pupil expenditures. Generally, this means that a school district's property tax rate does not depend on the property tax base of the district, but rather depends on the district's level of expenditures. The rate at which school costs are aided through the formula is determined by comparing a school district's per pupil tax base to the state's guaranteed tax base. **Equalization aids** are provided to make up the difference between the district's actual tax base and the state guaranteed tax base. Stated differently, there is an inverse relationship between equalization aids and property valuations; those districts with low per pupil property valuations receive a larger share of their costs through the equalization formula than districts with high per pupil property valuations. For a more complete description of the state equalization formula, see *Elementary and Secondary School Aids*, Informational Paper #27, issued by the LFB, dated January 2007.

2. Revenue Limits

Revenue limits restrict the annual increase in a school district's per pupil revenue derived from general school aid, the property tax levy, and computer aid. Revenue limits were imposed beginning in 1993-94. Categorical aid, federal aid, and other sources of local revenue are not subject to the revenue limits.

A school district can receive voter approval through referenda to exceed revenue limits. Local voters must approve the school boards resolution supporting inclusion in the district budget of an amount that exceeds the limit.

The interaction of revenue limits, collective bargaining provisions, including Qualified Economic Offers (QEO), and rising health care and energy costs, and increased school safety costs, among other factors, have resulted in financial pressure for many districts throughout the state. It should be noted that any increase in local revenue limits could result in higher local property taxes, and depending upon the details of the proposals could also result in higher state aid obligations if the Legislature and Governor determine to abide by the 2/3rds funding goal for state equalization aid.

B. POSSIBLE APPROACHES TO INCREASING THE REVENUE LIMIT FOR SCHOOL SAFETY EXPENDITURES

1. 2007-09 Biennial Budget

a. The Governor's Proposal

The Governor proposed increasing the revenue limit specifically for school safety expenditures in his 2007-09 Biennial Budget submitted to the Legislature. [2007 Senate Bill 40.] The Governor's

proposal and other legislative actions are described in the “*Comparative Summary of Budget Recommendations*” prepared by the Legislative Fiscal Bureau. This summary is included with the Memo as **Enclosure 1**.

The Governor proposed that a school district revenue limit be increased by a certain amount expressly for expenses for school safety, beginning with the revenue limits calculated in the 2008-09 school year. Specifically, his budget proposal provided that the amount of the this revenue limit increase would be equal to \$25,000 for up to the first 500 pupils enrolled in grades 9 through 12 and would increase by an additional \$25,000 for each additional 500 pupils enrolled in grades 9 through 12.

In order to receive the revenue limit increase a school district and a local law enforcement agency were required to jointly develop a school safety plan that covered each school in the district that operated grades 9 through 12. School districts were also required to submit the school safety plan to the State Superintendent of Public Instruction no later than November 1 of the first school year in which the revenue limit increase applied. The budget proposal defined “local law enforcement agency” as a governmental unit of one or more persons employed full-time by a city, town, village or county in the state for the purpose of preventing and detecting crime and enforcing state laws or local ordinances, employees of which are authorized to make arrests for crimes while acting within the scope of their authority.

The Governor’s proposal provided that a school district could use the revenue limit increase to: (a) purchase safety equipment specified by the state superintendent by rule as eligible for the adjustment; or (b) fund up to \$25,000 of the compensation costs associated with providing one security officer with the first 500 pupils enrolled in the district in grades 9 through 12 and up to \$25,000 of the compensation costs for providing an additional security officer for each additional 500 pupils enrolled in the district in grades 9 through 12. Finally, the Governor’s proposal required the school district to enter into an agreement with a local law enforcement agency that required the district and the agency to equally share the cost of compensating the security officers.¹

b. The Joint Finance Committee’s Proposal

The Joint Finance Committee in its deliberations adopted the Governor’s proposal but specified that the revenue adjustment be nonrecurring; that is, it would not be made part of the school district’s base budget. Also, the Joint Finance Committee specified that the requirement for a school safety plan would only apply if a district uses the adjustment to fund school security officer compensation costs.

c. The State Senate’s Proposal

The Senate budget amendments provided for a revenue limit increase, beginning in 2007-08 equal to \$100 per pupil or \$40,000, whichever was greater, to purchase school safety equipment or fund compensation costs for security officers. The Senate proposal specified that to utilize the adjustment, a district was required to develop a plan with a local law enforcement agency for the use of the funding. The Senate proposal defined, “law enforcement agency” in the same way as in the Governor’s proposal.

¹ Excerpt, from the Legislative Fiscal Bureau’s, “*Comparative Summary of Budget Recommendations*,” 2007 Act 20, Volume II, March 20, 2008.

The Senate further specified that revenue generated by the adjustment could only be utilized to implement the plan. The Senate version of the budget also required the district to submit the plan to the Department of Public Instruction. Finally, the Senate specified that the revenue from the adjustment would be nonrecurring, consistent with the Joint Finance actions.

During subsequent deliberations by the Assembly, the provision was eliminated from the Biennial Budget Bill.

The committee could choose to base a revenue cap exemption on language similar to that discussed as part of the 2007-09 Biennial Budget deliberations, focused specifically on school safety expenditures.

2. 2009-10 DPI Biennial Budget Request

DPI, as part of their biennial budget, is requesting additional revenue limit flexibility. DPI's proposal offers a possible alternative approach for the committee to consider by providing revenue limit flexibility for all spending not only school safety expenditures. A narrative of this request is enclosed with the Memo as **Enclosure 2**. The DPI document outlines the objective of the proposal as well as the background and analysis of the need for revenue flexibility. In addition, a description of the revenue limit history in the state is provided.

The core of DPI's proposal is to provide additional revenue limit flexibility for all school districts by increasing the per pupil revenue limit adjustment to \$335 in fiscal year 2010 and to \$350 in fiscal year 2011 for all purposes rather than for only school safety purposes. DPI's justification is to better reflect rapidly increasing fixed costs on all aspects of school operations. According to DPI, the proposal would represent an approximate 3.5% annual revenue limit increase. Under current law, these adjustments are anticipated to be approximately \$285 per pupil in fiscal year 2010 and \$297 per pupil in fiscal year 2011, or about 3% each year.

3. Basic Issues for Committee Discussion

In considering the issue of school revenue limits, the Special Committee could consider the following general issues before formulating any specific recommendations:

1. Should the committee recommend any change in the revenue limits applicable to school districts?
2. If changes are recommended, should they be for general purposes or specifically for school safety purposes?
3. If revenue cap changes for general purposes are recommended, should the increases be limited and if so, at what amounts and subject to what limitations? [DPI proposal.]
4. If school safety changes are recommended, should the increases be limited, and if so, at what amounts and subject to what limitations? [See Governor's proposal above and Senate-approved proposal.]

5. If revenue limit changes are recommended for either general or school safety purposes, should those expenditures be subject to a 2/3rds majority vote of the school board?
6. If no changes are recommended in the revenue limits, should other sources of support be recommended, such as the school safety grant proposal discussed in Memo No. 5?

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Enclosures