

## DPI 2009-11 BIENNIAL BUDGET REQUEST

### DECISION ITEM 7505 – REVENUE LIMIT – FLEXIBILITY

FISCAL SUMMARY	
2009-10 Request	2010-11 Request
\$0	\$0

#### Request/Objective

The Department proposes to provide additional revenue limit flexibility for all school districts by increasing the per pupil revenue limit adjustment to \$335 in FY10 and \$350 in FY11 to better reflect rapidly increasing fixed costs. This would represent an approximately 3.5 percent average annual revenue limit increase. Under current law, these adjustments would be approximately \$285 per pupil in FY10 and \$297 per pupil in FY11, about 3 percent each year.

This proposal would allow school districts to increase their revenues beyond the current law annual allowable per pupil adjustment each year with an estimated fiscal impact of approximately \$35 million in additional revenue limit authority in FY10 and \$67 million in additional authority in FY11. The Department's estimate for general equalization aids (see Decision Item 7501) in the 2009-11 biennium reflects this additional revenue limit authority to meet approximately two-thirds funding.

#### Background/Analysis of Need

Revenue limits were imposed on school districts beginning in 1993-94 and have now been in place for 16 years. The state's school finance system is sometimes referred to as being "broken" since many school districts are no longer able to raise or receive the necessary revenues to continue their current programs. While some may believe the general equalization aid formula, or level of state support is the reason for the system being "broken," the real source of many school district's woes are revenue limits.

It is revenue limits that have constrained the ability of school districts to meet ongoing increases in their costs, especially related to staff compensation and both the increasing requirements and number of children with disabilities, English language learners (ELL) and those in poverty.

#### *Revenue Limit History*

1993--State implements revenue limits, effective beginning in 1993-94 school year, on a temporary basis for a five year period (1993-94 through 1997-98).

1995--State modifies revenue limits and makes them permanent. State also establishes a "low revenue ceiling" of \$5,300 per pupil for any district in 1995-96 and \$5,600 in 1996-97.

1997--State adds exemption for declining enrollment, beginning in 1998-99, and allows districts to count 20 percent of their summer school enrollment, beginning in 1998-99. Low revenue ceiling is increased to \$5,900 in 1997-98 and \$6,100 in 1998-99.

1999--State allows districts to count 40 percent of their summer school enrollment beginning in 2000-01 school year. Low revenue ceiling is increased to \$6,300 in 1999-00 and \$6,500 in 2000-01.

2001--State excludes community services tax levies from district's revenue limit calculation, beginning in 2001-02 school year. State also provides recurring revenue limit exemption for certain "large area, low enrollment" districts, with a maximum increase of \$250,000 in 2001-02. Low revenue ceiling is increased to \$6,700 in 2001-02 and \$6,900 in 2002-03.

2003--Low revenue ceiling increased to \$7,400 in 2003-04 and \$7,800 in 2004-05.

2005--State allows districts to carryover 100 percent of their unused prior year revenue limit authority, making provision retroactive to 2004-05 (previous carryover figure was 75 percent). Low revenue ceiling increased to \$8,100 in 2005-06 and \$8,400 in 2006-07.

2007--State expands declining enrollment exemption for eligible districts and creates new exemption for those experiencing severe declines. Low revenue ceiling increased to \$8,700 in 2007-08 and \$9,000 in 2008-09.

As defined, revenue controls limit the amount of revenue a school district can raise through local property taxes and state general school aids annually on a per pupil basis. State categorical aids, federal aids, local receipts and most debt service tax levies are not included in revenue limits.

Revenue limits are increased each year on a per pupil basis, with that annual increase itself increased by the Consumer Price Index (CPI), and determined by a district's three-year full-time equivalent (FTE) rolling enrollment average (see Table 1).

Table 1

Fiscal Year	Allowable Per Pupil Increase	Annual Percentage Increase	Cumulative Percentage Increase
1993-94	190.00		
1994-95	194.37	2.3%	2.3%
1995-96	200.00	2.9	5.3
1996-97	206.00	3.0	8.4
1997-98	206.00	0.0	8.4
1998-99	208.88	1.4	9.9
1999-00	212.43	1.7	11.8
2000-01	220.29	3.7	15.9
2001-02	226.68	2.9	19.3
2002-03	230.08	1.5	21.1
2003-04	236.98	3.0	24.7
2004-05	241.01	1.7	26.8
2005-06	248.48	3.1	30.8
2006-07	256.93	3.4	35.2
2007-08	264.12	2.8	39.3
2008-09	274.68	4.0	44.6

Revenue limits are determined by each district individually and are not dependent on changes in other districts. There are state-defined exemptions/adjustments that are provided for declining enrollment, unused revenue authority, transfers of service, reorganizations, community services, and for districts below the "low revenue ceiling." Revenue limits can be exceeded if approved through local referendum. However, only 20-30 districts annually have been able to pass a successful referendum to exceed their revenue cap in recent years.

Revenue limits affect all districts, regardless of size, wealth, spending, poverty level, etc. Given the growing concerns of more districts each year, it can be argued that while some districts are in need of more assistance than others, *all* districts in Wisconsin have suffered under revenue limits and should be afforded more flexibility (i.e. local control) in making decisions on behalf of the children they educate.

Approximately 99.6+ percent of districts' overall revenue limit authority is used annually on a statewide basis, as usually less than \$35 million out of \$8.2 billion in total revenue limit authority in FY08, is left

unused. Districts exceeding their revenue cap in any year are penalized under current law, resulting in the return of state general aid to the state's general fund in that same year.

In FY08, the \$264.12 per pupil increase for all districts amounted to a 2.95 percent increase in the base revenue of the average district (\$9,028 in FY07). In FY08, there were about 50 districts (all of which had declining enrollment) that had base revenues less than what they were in FY07.

The current allowable per pupil increase of 2.95 percent is below the 3.8 percent minimum compensation increase that may be offered to teachers under the Qualified Economic Offer (QEO). In addition, the four percent CPI increase for FY09 (see Table 1), while higher than many recent years, is still below the percentage increase in costs in areas over which districts have no control such as fuel and utilities, as well as other areas such as health insurance.

To the extent that districts are provided with some additional revenue limit authority above what is allowed under current law, fewer districts may need to hold referenda to exceed their revenue caps during the next biennium to maintain class sizes, keep existing programming, etc.

### **Statutory Language**

The Department is proposing statutory language related to this request. See *Revenue Limit – Flexibility* in the Statutory Language section of this document.