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Local Government Expenditure and Revenue Limits

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This paper describes the five methods by which the state imposes fiscal controls on local units of government:

- Revenue limit on school districts
- Limit on compensation increases for certain school district employes
- Levy rate limit on technical college districts
- Levy rate limit on counties
- Expenditure restraint program for municipalities

School District Revenue Limit

The 1993-95 state budget (1993 Wisconsin Act 16) imposed a revenue limit on school districts for a five-year period (1993-94 through 1997-98). The revenue limits were modified and made permanent in the 1995-97 state budget (1995 Act 27). Under the limits, the annual increase in a school district's per pupil revenue derived from general school aid and property taxes is restricted. In general, the allowable increase in revenue per pupil cannot exceed $208.88 in 1998-99, which will be adjusted for inflation in future years under the indexing provisions of 1997 Act 27. The following sections describe, in more detail, the various components of the revenue limit.

Definition of Revenues Subject to the Limit

The limit is on the amount of revenue obtained through the combination of general school aid and the property tax levy.

General school aid consists of the following, as they apply to a particular school district: (a) equalization aid; (b) integration (Chapter 220) aid; and (c) special adjustment (hold harmless) aid. In total, these aids represent nearly 90% of the funds provided as state aid to school districts. School districts which consolidate are entitled to receive additional general school aid for a five-year period; this additional aid is excluded from the general school aid definition if a school district consolidated effective on or after July 1, 1995.

On October 15 of each year, the Department of Public Instruction (DPI) provides school districts with an estimate of their general school aid for the current school year. The difference between a school district's revenue limit and the October 15th general school aid estimate determines the maximum amount of revenue that the district is allowed to raise through the property tax levy.

Special provisions apply to the treatment of property tax levies for debt service. In addition, school districts may be eligible for various adjustments to the revenue limit. These provisions are described in subsequent sections of this paper.

Actual general school aid and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A school district is not required to levy a property tax which, when combined with its general school aid payment, results in the maximum amount allowed under the revenue limit.

Prior to 1995-96, if a school district did not increase its revenues to the maximum level, the district could not carry forward any of the unused revenue authority to the following school year.

However, beginning in 1995-96, school districts are allowed to carry forward 75% of the unused revenue authority to the following school year.

Definition of Pupil Enrollment

A three-year rolling average of a school district's pupil enrollment is used to determine the allowable revenue increase under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, the average of the 1995, 1996 and 1997 September memberships was used to calculate the 1997-98 base year revenues per pupil. Then, the average of the 1996, 1997 and 1998 September memberships is used to determine the allowable revenue increase in 1998-99.

Beginning in 1998-99, school districts can count 20% of the full-time equivalent (FTE) summer school enrollment in classes taught by licensed teachers as part of the three-year revenue limit average.. This summer school provision phases-in by including 20% of FTE summer school enrollment only in the fall, 1998, membership count in calculating revenue limits in 1998-99. In 1999-00, 20% of FTE summer school enrollment will be included in the fall, 1998, and fall, 1999, membership counts and years will be continued to be added in the future.

Only those pupils who are residents of the district are counted for membership purposes. Pupils who transfer between school districts under the state's public school open enrollment program are counted by the resident school district, rather than the school district of attendance. The statutes specify that any net transfer of equalization aid between school districts under the open enrollment program does not affect the definition of state aid for purposes of revenue limits. As a result, a transfer of aid received by a school district does not count against its revenue limits and a school district that has a net transfer of equalization aid to other school districts cannot increase its property tax levy to offset this aid loss. Pupils who transfer between school districts under the integration (Chapter 220) program are counted in the membership of the sending district and not the receiving district.

Finally, the number of pupils attending private schools in the Milwaukee parental choice program (MPCP) is subtracted from Milwaukee Public Schools (MPS) September membership numbers for revenue limits purposes using prior year numbers of MPCP pupils. For example, 1997-98 base year revenues per pupil were calculated using 1995, 1996 and 1997 MPS September memberships less the average of the number of MPCP pupils in 1994, 1995 and 1996. Then, the allowable increase in 1998-99 was calculated by taking the average of 1996, 1997 and 1998 MPS September memberships less the average of the number of MPCP pupils in 1995, 1996 and 1997.

Allowable Revenue Increases

The maximum allowable increase in revenue per pupil is set at $208.88 in 1998-99, and will be indexed for inflation in future years. Prior to 1995-96, school districts had the option of increasing their revenues by either a flat dollar amount per pupil or the rate of inflation, whichever resulted in the higher revenue amount for the district. The inflation option was eliminated by 1995 Act 27. Table 1 summarizes the increases allowed under the limit since 1993-94.

Table 1: **Allowable Revenue Increase**

	Per Pupil	Inflation Rate
1993-94	$190.00	3.2%
1994-95	194.37	2.3
1995-96	200.00	N.A.
1996-97	206.00	N.A.
1997-98	206.00	N.A.
1998-99	208.88	N.A.

Sample Calculation of Revenue Limit

Table 2 provides an example of how the revenue limit is calculated, based on the 1998-99 limit

Treatment of Debt Service

Whether or not debt service is subject to the limit depends on when and how a school district's borrowing decisions were made. Specifically, the following debt service is not subject to the limit:

- Revenues needed for the payment of any general obligation debt service, including refinanced debt, authorized by a resolution of the school board only (that is, without a referendum) prior to August 12, 1993, which was the effective date of 1993 Act 16.

- Revenues needed for the payment of any general obligation debt service, including refinanced debt, approved by referendum at any time.

In other words, borrowing authorized by school board resolution only (without a referendum) after August 12, 1993, is subject to the revenue limit. In addition, the revenue limit is structured in such a way that if a school district's excluded debt service is declining, the district is not able to transfer the cost reductions to its operating budget.

Table 2: **Sample Calculation of Revenue Limits**

	Sept. 1995	Sept. 1996	Sept. 1997	Sept. 1998
Membership (Pupils)	1,000	1,025	1,050	1,075

1995 thru 1997 Average Pupils = 1,025
1996 thru 1998 Average Pupils = 1,050

1997-98 Base Revenue = $6,150,000
1998-99 General School Aid = $4,000,000

Step 1: Base Revenue ÷ 1995 thru 1997 Average Pupils = Base Revenue Per Pupil
$6,150,000 ÷ 1,025 = $6,000

Step 2: Base Revenue Per Pupil + Allowable Increase = 1998-99 Allowable Revenue Per Pupil
$6,000 + $208.88 = $6,208.88

Step 3: 1998-99 Allowable Revenue Per Pupil x 1996 thru 1998 Average Pupils = 1998-99 Maximum Revenue
$6,208.88 x 1,050 = $6,519,324

Step 4: 1998-99 Maximum Revenue - General School Aid = Maximum Property Tax Levy
$6,519,324 - $4,000,000 = $2,519,324

Adjustments to the Revenue Limit

Transfer of Service and Boundary Changes. Adjustments involving increases and decreases to the limit are allowed for transfers of service responsibilities between a school district and another governmental unit (including a school district) or for changes in a school district's boundaries. The approval and determination of these adjustments based on the increase or decrease in costs is made by DPI.

In 1995-96, 1996-97 and 1997-98, DPI was required to ensure that if responsibility for providing a service was transferred from one school district to another district within the state, the decrease in the former district's limit had to be equal to or greater than the increase in the latter district's limit. This requirement was eliminated in 1997 Act 27.

Act 27 also specified that if a school district assumes responsibility for a child with a disability or a limited-English speaking pupil, its revenue limits are increased by the estimated cost of providing service less the estimated amount of categorical aid that the district will receive for the pupil in the following school year, as determined by the state superintendent.

Low-Revenue Districts. Any school district with a "base revenue" per pupil for the prior school year that was less than a "revenue ceiling" of $5,900 in 1997-98 and $6,100 in 1998-99 and each year thereafter is allowed to increase their revenues up to the ceiling. "Base revenue" is determined by: (a) calculating the sum of the district's prior year general school aids and the property tax levy (excluding debt service levies exempted from the limit); (b) dividing the sum under (a) by the average of the district's September membership for the three prior school years; and (c) adding $208.88 to the result for 1998-99. If a school district has resident pupils who were solely enrolled in a county children with disabilities education board program, costs and pupils related to that program would be factored into the district's base revenue calculation.

Carryover of Unused Revenue Authority. As noted above, if a school district's revenues in any school year are less than the maximum allowed in that year, the revenue limit otherwise applicable to the district in the subsequent school year is increased by an amount equal to 75% of the difference between the district's actual revenues and the maximum amount allowed.

Declining Enrollment. In 1997-98, if a school district's three-year rolling average pupil enrollment declined by more than 2% compared to the prior year three-year rolling average, then its allowable revenues were calculated as if the decrease had been 2%. For 1998-99 only, there is a one-year nonrecurring adjustment to revenue limits in a dollar amount equal to 75% of what the decline in the three-year rolling average memberships would have generated.

Federal Impact Aid. If a school district received less federal impact aid than it received in the previous school year, the revenue limit otherwise applicable to the district in the subsequent school year would be increased by an amount equal to the reduction in such aid. This adjustment first applied to revenue limits computed for the 1995-96 school year based on changes in federal impact aid payments between 1993-94 and 1994-95.

School District Reorganization. Under 1997 Act 286, which establishes procedures under which a school district can be created out of the territory of existing school districts, special provisions govern the initial calculation of revenue limits for a new school district. In addition, the funds needed to pay the debt service of certain debt associated with reorganizations under these provisions are not subject to revenue limits. Finally, each school district from which territory is detached to create a school district will have its revenue limit increased in the year that the reorganization takes effect by 5% of its general school aid.

Override by Referendum

A school district can exceed the revenue limit by receiving voter approval at a referendum. The school board must approve a resolution supporting inclusion in the school district budget an amount which exceeds the revenue limit. The resolution must specify whether the proposed excess revenue is for a recurring or nonrecurring purpose, or both.

The school board can either call a special referendum or hold the referendum at the regular primary or general election dates. The vote may not be held earlier than 35 days after adoption of the board's resolution. If the resolution is approved by a majority of those voting on the question, the school board can exceed the limit by the amount approved. Only excess revenues approved for a recurring purpose can be included in a district's base for determining the revenue limit for the next school year.

Penalties for Exceeding the Limit

If a school district exceeds its maximum allowable revenue without referendum approval, DPI must reduce the district's state equalization aid payment by the excess revenue amount. The penalty is imposed in the same school year in which the district raised the excess revenue. The withheld aid amount lapses to the state's general fund. In cases where a school district's equalization aid is less than the penalty amount, DPI must reduce the district's other state aid payments until the remaining excess revenue is covered. If the aid reduction is still insufficient to cover the excess revenues, the school board would be ordered by the State Superintendent to reduce the property tax levy by an amount equal to the remainder of the excess amount or refund the amount with interest, if taxes have already been collected. If the board violates the order, any resident of the district could seek injunctive relief. The excess revenue is not included in determining the district's limits for subsequent years.

Limit on Compensation Increases for Certain School District Employes

In both the 1993-95 state budget (1993 Wisconsin Act 16) and the 1995-97 state budget (1995 Wisconsin Act 27), changes were made to the mediation-arbitration procedures established under s. 111.70(4)(cm) of the statutes, as these provisions apply to represented school district professional employes (school teachers). Initially, 1993 Wisconsin Act 16 imposed temporary limitations (in effect from August 12, 1993, through June 30, 1996) on the aggregate amount of salary and fringe benefits increases which a school board must offer to its represented professional employes if the school board wished to avoid compulsory, final and binding arbitration arising from a collective bargaining impasse on these economic issues. Act 16 also established similar temporary limitations on the aggregate amount of salary and fringe benefits increases which could be provided for school district professional administrative employes not subject to collective bargaining procedures. Under 1995 Wisconsin Act 27, all of these temporary limitations were made permanent. These limitations are summarized below.

Qualified Economic Offer Provisions for Teachers

For all collective bargaining involving represented professional teaching employes of a school district who are subject to mediation-arbitration procedures under s. 111.70(4)(cm) of the statutes, if a school district employer submits what is deemed a "qualified economic offer (QEO)," only the remaining noneconomic issues in dispute are eligible to be submitted to compulsory, final and binding arbitration.

A "qualified economic offer" is one which contains all of the following elements:

- First, the employer must maintain both the

existing employe fringe benefits package and the district's percentage contribution level to that fringe benefits package. The employer must provide an annual funding increase to maintain these fringe benefits provisions in an amount up to 1.7% of total compensation and fringe benefits costs per full-time equivalent employe for the total number of covered employes. Where the annual cost to continue the fringe benefits package and to maintain the employer's fringe benefits contribution effort requires less than a 1.7% increase, the employer need only provide the additional funding amount necessary to maintain the employer share of fringe benefits costs in order for the fringe benefits component of the offer to be deemed qualified. Through June 30, 1999, employer is not required to pass on the difference between any lower percentage level and the 1.7% amount as an additional salary offer. However, for collective bargaining agreements that cover the period after June 30, 1999, provisions of 1997 Act 237 will newly require the employer to add the amount of any such difference to the employer's salary offer component of the QEO. Where the increased costs of fringe benefits package continuation exceed a 1.7% increase, the employer must also fully cover all of those costs in excess of the 1.7% amount, but may reduce the salary component of the qualified economic offer in order to fund the higher fringe benefits cost. In the case where annual fringe benefits continuation costs exceed 3.8% of total compensation and fringe benefits costs, the employer must fully cover all of those costs in excess of the 3.8% amount, but may submit a qualified economic offer which actually includes an average salary decrease sufficient to fund the continuation and maintenance of fringe benefits costs in excess of the 3.8% level.

• Second, subject to any of the above fringe benefits costs funding offsets, the employer must provide a total annual average increase in the cost of all salary items of at least 2.1% of total compensation and fringe benefits costs per full-time equivalent employe for the total number of such covered employes. The combined salary and fringe benefits offers of the employer must only meet an amount equal to a maximum of 3.8% of total compensation and fringe benefits costs to constitute a qualified economic offer. A qualified economic offer package could actually be less than the 3.8% amount if the increase required for continuation of fringe benefits costs is less than the 1.7% amount.

• Third, as part of any salary increase component, the employer must provide, as a first draw against the additional salary dollars offered, payment to all eligible employes of any salary increase to which they are entitled by virtue of an additional year of service on the salary schedule (generally referred to as "step" progression). If there is insufficient funding to provide a full single step increase for each eligible employe, the amount of the otherwise required increase must be prorated.

• Fourth, as another component of any salary increase offer, once a full single step increase for eligible employes has been funded, the employer must then provide payment to all eligible employes of any salary adjustment to which they are entitled by virtue of a promotion or additional professional qualifications (generally referred to as "lane" progression). If there is insufficient funding for the lane increases for each eligible employe, the amount of the otherwise required increase must be prorated. The salary funds under the qualified economic offer remaining after providing for step and lane progression costs may then be used to fund general salary increases for all eligible employes.

• Finally, the salary range structure, number of steps, requirements for attaining a step or assignment of a position to a salary range may not be modified under a qualified economic offer or in any subsequent agreement. However, notwithstanding this general limitation, provisions of 1995 Wisconsin Act 27 newly accord a school district employer and its represented professional employes the option of mutually agreeing to alter the

existing salary range structure, number of steps, requirements for attaining a step or the assignment of a position to a salary range under a qualified economic offer.

Limitation on the Term of Teacher Collective Bargaining Agreements

The duration of the collective bargaining agreement between school district employers and their professional teaching staff who are subject to interest arbitration procedures was permanently modified by 1993 Wisconsin Act 16. Following a transition period through June 30, 1997, all collective bargaining agreements in Wisconsin involving school teacher professional employes now have a uniform two-year duration corresponding to the state's fiscal biennium (July 1 of each odd-numbered year through June 30 of the ensuing odd-numbered year).

Limitation on Salary and Fringe Benefits Increases for Nonrepresented Personnel

For all nonrepresented professional employes in a school district who are not covered by a collective bargaining agreement subject to the mediation-arbitration procedures under s. 111.70(4)(cm) of the statutes (primarily administrators, principals and similar managerial employes), the total amounts available for salary and fringe benefits increases for this group of employes for any 12-month period ending on June 30 may not exceed the greater of:

- An amount generated by multiplying 3.8% of the total prior year's cost of salaries and fringe benefits for such employes; or

- The average total percentage increase in total salary and fringe benefits increases per employe provided by the school district for the most recent 12-month period ending on June 30 for its represented professional employes.

Limitation on the Term of School District Administrators' Contracts

The length of a contract between a school district and any school district nonrepresented professional employe may not exceed two years in length. (A previous requirement that all such contracts expire uniformly on June 30 of each odd-numbered year was repealed by 1995 Wisconsin Act 27). Such a two-year contract may provide for one or more extensions of one year each. Further, if at least four months prior to the expiration of an administrator's contract, a school board fails to give notice of either renewal or nonrenewal, the contract then in force will continue for two years.

Technical College District Tax Rate Limit

District boards in the Wisconsin Technical College System (WTCS) are subject to a limit on the rate of property taxation for all purposes except debt service. Each of the 16 WTCS districts cannot exceed a tax rate of $1.50 per $1,000 (1.5 mills) of its equalized property valuation. In 1998-99, three districts were at the 1.5 mill limit and an additional three districts exceeded 1.4 mills. Since 1989, the WTCS tax levy has increased by an average of 7.1% annually due to growth in equalized valuations above the rate of inflation and the exclusion of debt from the limit. While there is no limit on the debt levy rate, major building projects ($500,000 or more) are generally subject to referendum approval. Further information regarding WTCS funding is provided in Legislative Fiscal Bureau Informational Paper #35, entitled "Wisconsin Technical College System."

County Tax Rate Limit

The 1993-95 state budget (1993 Wisconsin Act 16) imposed a tax rate limit on the general operations portion of each county's levy beginning with the 1993 tax levy (payable in 1994). For purposes of the control, each county's total tax levy and rate are separated into two components. The debt levy and debt levy rate are comprised of amounts for debt service on state trust fund loans, general obligation bonds and long-term promissory notes, while the operating levy and operating rate are comprised of all other taxes. Each county's operating levy is limited to no more than the rate for 1992(93). Adjustments to the operating levy are allowed for services transferred between the county and other local governments. A county may increase its operating levy above the allowable amount if that increase is approved through referendum.

Although the focus of the control is the operating levy, the debt levy is indirectly controlled. Each county is prohibited from issuing new debt, which would be repaid from the county's debt levy, unless one of the following conditions is met:

- the debt must be approved through referendum if it would cause the county's debt levy rate to exceed the 1992(93) rate;
- the debt would not cause the county's debt levy rate to exceed the 1992(93) rate, based on the "reasonable expectation" of the county board;
- the debt was authorized prior to August 12, 1993;
- the debt would be used to abolish grade crossings or for regional projects;
- the debt would be used to refund existing debt; or
- the debt is authorized by a 75% vote of the county board.

If a county exceeds its operating levy rate, the county's shared revenue payment is reduced by the amount of the excess. If the excess exceeds the shared revenue payment, the county's transportation aid payment is reduced by the remaining amount. The Department of Revenue (DOR) administers the county tax rate limit. Based on its initial review of tax rate limit worksheets, DOR reports that one county (Rusk) violated the limit with respect to its 1998(99) tax levy.

Municipal Expenditure Restraint Program

Municipalities are not subject to a mandatory fiscal control. However, as a condition for receiving aid under the expenditure restraint program, municipalities must limit the year-to-year growth in their budgets to a percentage determined through a statutory formula. To receive aid, they must also have a municipal purpose tax rate in excess of five mills. Funding for the program is set at $48 million annually.

The statutes define municipal budget as the municipality's budget for its general fund exclusive of principal and interest payments on long-term debt. The statutes prohibit municipalities from meeting the budget test by creating other funds, unless those funds conform to generally accepted accounting principles (GAAP). These principles have been adopted by the Governmental Accounting Standards Board to offer governments guidelines on how to maintain their financial records.

The percentage limitation on budgets equals the change in the Consumer Price Index (CPI) plus an adjustment based on growth in the municipality's property value. The property value adjustment is unique for each municipality and equals 60% of the

percentage change in the municipality's equalized value due to new construction, net of any property removed or demolished. The adjustment is limited to no less than 0% and no more than 2%. The allowable increase is known at the time when municipal officials set their budgets.

To be eligible for a 1999 payment, municipalities had to limit their 1998 budget increases to 2.7% to 4.7%, depending on individual municipal adjustments due to property value increases. Out of the 512 municipalities that would otherwise have been eligible for a 1999 payment, only 284 met the budget test. The other 228 municipalities either did not meet the test or did not submit budget worksheets to the Department of Revenue in a timely manner.

This program is described in greater detail in Legislative Fiscal Bureau Informational Paper #19, entitled "Targeted Municipal Aid Programs."