

### Fiscal Estimate - 2017 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 17-2711/1	<b>Introduction Number</b> AB-0285	
<b>Description</b> creating a general school aid penalty for increasing a school district's revenue limit by referendum and allowing school boards to rescind revenue limit increases that have been approved by referendum		
<b>Fiscal Effect</b>		
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Appropriations  <input type="checkbox"/> Decrease Existing Appropriations  <input type="checkbox"/> Create New Appropriations         </div> <div style="width: 30%;"> <input type="checkbox"/> Increase Existing Revenues  <input type="checkbox"/> Decrease Existing Revenues         </div> <div style="width: 30%;"> <input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget  <div style="display: flex; justify-content: space-around; font-size: small;"> <input type="checkbox"/> Yes      <input type="checkbox"/> No         </div> <input type="checkbox"/> Decrease Costs         </div> </div>		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input checked="" type="checkbox"/> Indeterminate <div style="display: flex; justify-content: space-between;"> <div style="width: 30%;">           1. <input type="checkbox"/> Increase Costs  <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory            2. <input type="checkbox"/> Decrease Costs  <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory         </div> <div style="width: 30%;">           3. <input checked="" type="checkbox"/> Increase Revenue  <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory            4. <input checked="" type="checkbox"/> Decrease Revenue  <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory         </div> <div style="width: 30%;">           5. Types of Local Government Units Affected  <input type="checkbox"/> Towns      <input type="checkbox"/> Village      <input type="checkbox"/> Cities  <input type="checkbox"/> Counties      <input type="checkbox"/> Others  <input checked="" type="checkbox"/> School Districts      <input type="checkbox"/> WTCS Districts         </div> </div>		
<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>	
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DPI/ Erin Fath (608) 266-2804	Erin Fath (608) 266-2804	5/7/2017

## Fiscal Estimate Narratives

DPI 5/7/2017

LRB Number	17-2711/1	Introduction Number	AB-0285	Estimate Type	Original
<b>Description</b> creating a general school aid penalty for increasing a school district's revenue limit by referendum and allowing school boards to rescind revenue limit increases that have been approved by referendum					

### Assumptions Used in Arriving at Fiscal Estimate

The bill creates a general aid penalty for school districts that obtain approval to exceed the revenue limit via operating referendum that are approved after the effective date of the bill. The penalty would be equal to 20 percent of the revenue authority approved under the referendum for the prior school year. Thus, beginning in FY19, penalties would be applied to general aid payments for FY18 revenue limit authority derived from an operating referendum. If general aid were insufficient to cover the penalty, the Department of Public Instruction (DPI) would be required to reduce the district's other state aids to recoup the penalty.

The bill requires DPI to redistribute the combined general aid penalties to districts that did not have operating referendum derived revenue limit authority in the prior year (non-penalized districts). The language in the bill suggests that the penalty amounts would be distributed to those districts in an amount proportionate to the general aid received by those districts. As written, under Section 4, the bill creates s. 121.93 (4) (d) to say "Multiply the amount of state aid under par. (a) by the quotient under par. (c)." It appears the draft incorrectly references par. (a), where it should instead reference (b), the paragraph that speaks to state aid. [Paragraph (4) (a) speaks to the total of penalty amounts].

The bill requires districts to include an estimate of the 20 percent penalty resulting (in the following year) from an approved operating referendum in the question included on the ballot for the referendum. Finally, the bill permits school districts to rescind revenue limit authority derived from an operating referendum, thereby creating a means for a school district to mitigate or eliminate the general aid penalty created under the bill.

If the provisions of the bill had been in place for the 2016-17 year, 104 school districts would have been subject to a referendum penalty (based on final 2015-16 revenue limit data). Total penalties would have equaled \$19.4 million for 104 districts. The range for those penalties would have been \$15,000 to \$1,700,000, with an average penalty amount of \$186,798.

The penalty would have exceeded the certified general aid amount for 11 districts, one of which is a district that receives no general aid (Washington Island). The other 10 districts with insufficient general aid would have included Big Foot, Drummond, Elcho, Green Lake, Northland Pines, Phelps, Sevastopol, South Shore, Three Lakes, and Wabeno.

While FY17 final categorical aids amounts for all school districts will not be available until June 2017, for the purposes of this fiscal estimate, FY16 categorical aid amounts were used. Using the FY16 categorical aids amounts as a proxy, for all but one of these 11 districts (Wabeno being the exception), the penalty would have exceeded combined state general and categorical aids. The total amount of "uncovered" penalty would have been \$1,535,613. The bill does not indicate what would be done for districts for which total general and categorical aids are insufficient to cover the penalty amount. If the full penalty amounts were not collected from the penalized school districts, there would be insufficient penalty dollars to balance the additional amounts provided to the non-penalized school districts.

The redistributed aid would have been equal to 0.523 percent of the total general aid received by non-penalized districts, ranging from \$7 to \$2.88 million, with an average of \$61,284.

The bill specifies that DPI must make the reductions to aid payments to school districts that incurred a general aid penalty after making adjustments to school districts' general aid payments to reflect open enrollment transfers, and for payments made on behalf of pupils under the special needs scholarship, independent charter schools, and the statewide and Racine parental choice programs. This language suggests that the reduction would not be applied to a penalized school district's October 15th Certified Aid amount, because the adjustments for the Open Enrollment program are made at the end of the school

year, in June of each year (under the bill, the penalty could not be applied until after all other adjustments, including Open Enrollment, are applied). Assuming this is the case, the penalized district would not have the ability to levy back for the penalty amount.

The bill directs DPI to redistribute the aid penalties to school districts that did not have referendum-derived revenue limit authority in the prior year, by increasing the amount of state aid for which the school district is eligible under s.121.08, e.g. state equalization aid, certified by DPI on October 15th of each year. The bill does not specify that the additional aid received by non-penalized school districts would be received outside the revenue limit. Thus, the bill is interpreted to mean that the additional aid received by the non-penalized school districts would be included in those school districts' October 15th certified general aid amount, thereby lowering those districts' allowable levy.

#### Local Fiscal Impact

For districts that pass an operating referendum, a loss of state aids (in the following school year) in an amount equal to 20 percent of the authorized revenue authority. Whether the reduction is made to just the district's general aid payment at the end of the school year, or also to the district's categorical aid (if general aid is insufficient), the district would incur a loss of spending capacity.

The total impact would depend on future behavior, which cannot be predicted. But if the provisions of the bill had been in place for FY17, \$19.4 million would have been incurred as penalties and been redistributed to other districts as general aid (and lowered property taxes in those districts).

#### State Fiscal Impact

There is potential for a negative impact on the state's general fund, if penalties could not be fully recovered from all penalized school districts to offset the redistribution of the penalty amounts to non-penalized school districts. Under this estimate, using FY16 categorical aid amounts as a proxy for FY17 amounts, a total of \$1,535,613 would not have been recouped from the 11 school districts for which the penalty would have exceeded their state aid amounts.

#### **Long-Range Fiscal Implications**