



Legislative Fiscal Bureau

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TO: Representative Cory Mason
Room 6 North, State Capitol

FROM: Dave Loppnow, Assistant Director

SUBJECT: Questions Relating to State Law Governing School District Creation

At your request, I am providing information relating to state law governing school district creation and discussions relating to the Racine Unified School District (RUSD) and a potential new school district involving Caledonia and Sturtevant. This memorandum is organized in question and answer format.

If a new school district would be created, how much general school aid would the district receive in the year it is created?

Under state law, general school aids are calculated using data on shared costs, membership, and equalized value from the prior year. In the year a new school district is created, general school aids would be paid to the existing district; the new district would be eligible for general school aids in its second year of operation, based on shared costs, membership, and equalized value for the new district in its first year of operations.

This means high tax spike in first year.

A new district could attempt to avoid a spike in its property tax rate by not levying to the maximum allowed under revenue limits in its first year of operations. If a district does not levy the maximum amount allowed in a given school year, the district's revenue limit in the following year is increased by an amount equal to the underlevy less any nonrecurring adjustments from the prior year. However, it would have to find some source of revenue to replace the foregone property taxes for the first year. One possibility would be to use any cash received from the existing district in the division of assets when the new district is created. If cash from this source is not available, the new district could borrow moneys to fund its first year operations, and repay the loan in later years when it is eligible to receive general school aid.

Would a new school district receive integration aid?

RUSD was eligible for approximately \$8.8 million of aid under the intradistrict integration

aid program (Chapter 220 program). Although this aid is treated as a deductible receipt, which reduces shared costs for RUSD under the equalization aid formula, its net effect was to reduce the school levy by RUSD in 2014-15 by approximately \$0.80 per \$1,000 of equalized value.

Under the 2015-17 budget proposal by the Governor (Assembly Bill 21/ Senate Bill 21), pupils would be prohibited from participating in the Chapter 220 program unless those pupils were participating in the program in the 2014-15 school year. This proposal, if it is enacted by the Legislature, would result in the gradual phase-out of the intradistrict aid received by RUSD, and no school district, other than ones currently participating in the program, could receive Chapter 220 aid in the future.

Would a new school district receive high poverty aid?

A school district is eligible for high poverty aid if, in the October preceding each biennium, at least 50% of the district's enrollment for the third Friday in September pupil count is eligible for free and reduced-price lunch in the national school lunch program. By law, high poverty aid is subject to revenue limits so that the effect of this aid is to reduce the property tax levy of the eligible district.

In 2012-13, 60% of pupils attending RUSD qualified for free and reduced-price lunch, so RUSD is eligible for \$1,244,580 of high poverty aid in 2013-14 and in 2014-15. This aid reduced the school levy by RUSD by \$0.16 per \$1,000 of equalized value.

Based on data from the school lunch program for three elementary schools (O Brown, Gifford, and North Park) cited in press accounts of discussions related creating a new school district, approximately 40% of the pupils attending these schools qualified for free and reduced-price lunch. If this data would be representative of the proposed district as a whole, then it would not be eligible for high poverty aid.

Would a new school district have higher property tax rates compared to RUSD?

School district property tax rates depend on the revenue limit of the school district, the amount of state general aid received, and amount of other levy (community service and referendum debt) that is not subject to revenue limits. In 2014-15, RUSD has a school levy tax rate of \$9.59 per \$1,000 of equalized value, which is below the statewide average rate of \$10.25 per \$1,000 per value.

Under current law governing school district creation, a new school district's revenue limit per pupil is calculated as a weighted average of the districts' revenue limits that contributed territory to the new district. In this situation, apparently all of the territory would be from RUSD, so the RUSD revenue limit per pupil would apply to a new district. This implies that a new district would have a per pupil revenue limit comparable to RUSD, unless a new district would pass an operating referendum to increase its revenue limit.

As it relates to general aid, as noted above, the potential aid received by a new district would

depend on its shared costs, membership, and equalized value from the prior year. All of these factors are unknown. However, the principle underlying the state's equalization aid formula is that school districts with comparable levels of spending have comparable tax rates. If a new district has a higher cost structure, or must incur additional debt in order to provide new facilities, its costs per pupil would be higher than RUSD, as would its tax rate. As an example, if shared costs per pupil would increase by \$1,000 compared to RUSD, the school tax rate for the new district would increase by an estimated \$1.85 per \$1,000 of equalized value. In addition, as noted above, RUSD receives integration aid and high poverty aid that a new district may not receive, which would result in its tax rate being approximately \$1 per \$1,000 of equalized value higher than RUSD, all other things being equal.

I hope that this information is helpful. Please contact me if you have questions.

<u>RUSD</u> <u>2015 Tax Rate</u>	<u>New District</u> <u>Additional Tax Rate</u>	<u>New District</u> <u>Min. New Tax Rate</u>	<u>% Tax Increase</u> <u>New District</u>
\$9.59 per 1,000	\$1.00 per \$1,000	\$10.59 per \$1,000	10.42%
This would mean a \$200 annual property tax increase for a \$200,000 home.			

