



School Finance Puzzle: How The Pieces Fit Together

Dr. Mary Pfeiffer
District Administrator



Andrew Thorson
Assistant District Administrator of Business Services

Adapted from the WASBO and the WI DPI School Finance Puzzle presentation



Presentation Goals:

- **Enhance awareness and understanding**
- **Raise confidence level of board members in communicating on school finance topics**
- **Help foster an environment of trust between citizens and elected officials**



The Puzzle Pieces

- **Overview**
- **Revenue Limits**
- **Equalization Aid**
- **Tax Levies, Referenda and Tax Bills**



Wisconsin School Finance Overview

- **State aid to K-12 is the largest piece of the State budget**
- **The amount of equalization aid affects the amount school district tax levy**
- **State aid is linked to property value per student**
- **State aid formula is always being adjusted**



Revenue Limits





Revenue Limits

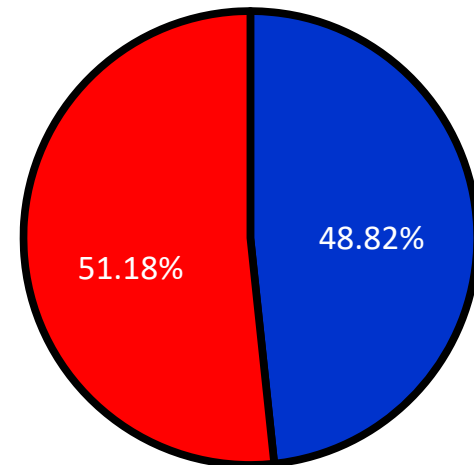
- **In 1993-94, the State enacted revenue limits to control the amount of revenue a school district can collect through:**
 - State General Aids
 - Aid for Exempt Computer Property
 - Local Property Taxes



Revenue Limits

- The revenue limit is the maximum amount of revenue that can be raised through general aid and local property tax
- Think of Revenue Limits as a Pie
 - The Limit itself is the outer crust – this defines the size of the pie
 - There are two fillings: state aids and local taxes
 - As one increases, the other decreases

Revenue Limit
(District A)

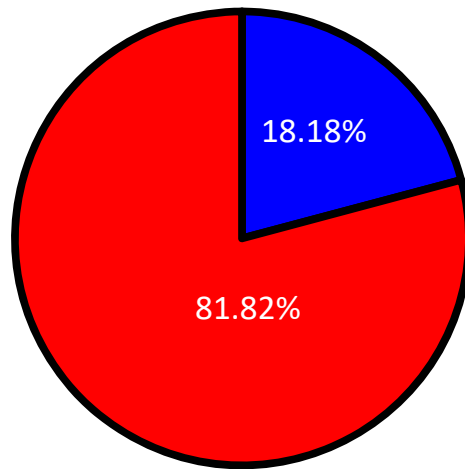


■ State Aid ■ Local Taxes



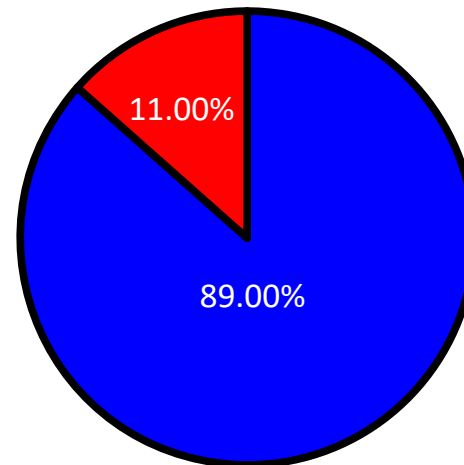
Revenue Limits

**Property Wealthy District
(District B)**

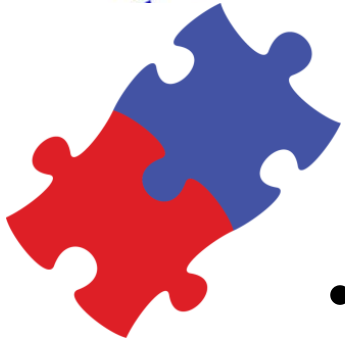


■ State Aid ■ Local Taxes

**Property Poor District
(District C)**



■ State Aid ■ Local Taxes



Revenue Limits

- The amount of “filling” from state sources is determined by the state formula (the next section of the presentation)
- The amount of “filling” from local taxes is based on the space available in the crust of the pie and whether the Board wants to fill the pie



Revenue Limit Factors

- **Critical factors in the revenue limit calculation include:**
 - Base Revenue (Prior Year Revenue Limit)
 - Membership (Full time equivalent resident students)
 - Allowable Annual Change Per Member (\$0 in 2018-19)
 - Allowable Exemptions to the Limit



Revenue Limit Membership

- **Membership does not equal students in seats**
 - Includes Resident Open Enrollment (OE) Students attending elsewhere
 - Excludes Non-Resident OE students being taught in your district
 - Pro-rates for part-time students, such as summer school, half-day K and 4K.



Per Member Adjustment & Per Pupil Aid

Year	Revenue Limit - Allowed Per-Member Change		Categorical Aid - Per Pupil
2009-10	\$200.00		\$0.00
2010-11	\$200.00		\$0.00
2011-12	(\$528.81)		\$0.00
2012-13	\$50.00		\$50.00
2013-14	\$75.00		\$75.00
2014-15	\$75.00		\$150.00
2015-16	\$0.00		\$150.00
2016-17	\$0.00		\$250.00
2017-18	\$0.00		\$450.00
2018-19	\$0.00		\$654.00



Revenue Limit Membership

- **Revenue Limit Membership is calculated on a three year average**
 - A three year average is used to minimize the financial impact of a sharp incline or decline in membership
 - 2018-19 Revenue Limit Membership =

$$\frac{(Sept2016 + 0.40 * Summer2016) + (Sept2017 + 0.40 * Summer2017) + (Sept2018 + 0.40 * Summer2018)}{3}$$

3



Revenue Limit Calculation



If Membership or the Maximum Revenue per Member increase, the “Pie Crust” (Revenue Limit) can get bigger.



Revenue Limit Exemptions

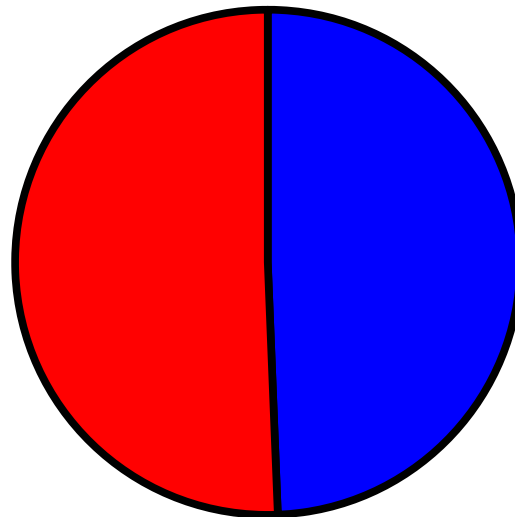
What are the most common Exemptions to expand the pie crust?

- Non-Recurring Exemptions (one time annual)
 - Make this year's pie crust bigger
 - Declining Enrollment
 - "Hold Harmless"
 - Energy Efficiency
 - Non-Recurring Referendum
- Recurring Exemptions (ongoing permanent)
 - Makes this + future years' crusts larger
 - Transfer of Service
 - Recurring Referendum



Revenue Limits

REVENUE LIMITS – STATE AID = PROPERTY TAXES



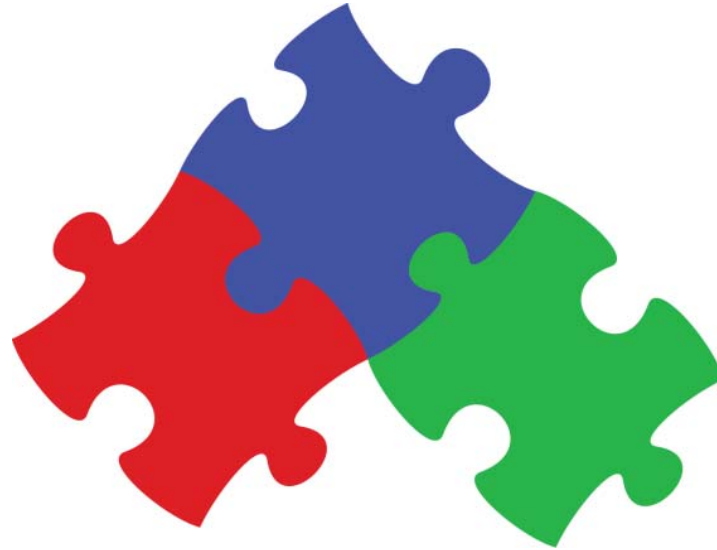
■ State Aid

■ Local Taxes

So, how is the State Aid portion calculated?



Equalization Aid





Why Equalization Aid?

- “The legislature shall provide by law for the establishment of district schools, which shall be as nearly uniform as practicable....”
- “Each town and city shall be required to raise by tax, annually, for the support of common schools therein.....”



Modern-Day Wisconsin

The original funding source for public schools is property tax, but we know that property values across the state are not uniform.

The challenge is defining “as nearly uniform as practicable”



What is as Nearly Uniform as Practicable?

(Does it mean that state aid is the same for all districts?)

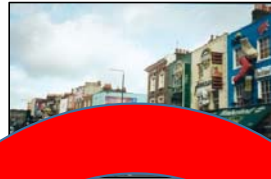
\$1,000,000



\$2,000,000



\$3,000,000



\$4,000,000



\$5,000,000



Property tax
(Example: \$1,000,000 / 010)



\$10,000

\$20,000

\$30,000

\$20,000

\$20,000

\$40,000

\$30,000

\$20,000

\$50,000

\$40,000

\$20,000

\$60,000

\$50,000

\$20,000

\$70,000



What is as Nearly Uniform as Practicable?

(Does it mean the “Robin Hood” principle with local property taxes?)

\$1,000,000



\$2,000,000



\$3,000,000



\$4,000,000



\$5,000,000



\$10,000

\$20,000

\$30,000

\$20,000

\$10,000

\$30,000

\$30,000

\$ 0

\$30,000

\$40,000

\$-10,000

\$30,000

\$50,000

\$-20,000

\$30,000



State Cannot Recapture From Local Tax Base and Redistribute

Buse vs. Smith
(1976)



NOT LEGAL



What is as Nearly Uniform as Practicable?

(How about if state aid is related to local property value?)

\$1,000,000



\$2,000,000



\$3,000,000



\$4,000,000



\$5,000,000



\$10,000

\$40,000

\$50,000

\$20,000

\$30,000

\$50,000

\$30,000

\$20,000

\$50,000

\$40,000

\$10,000

\$50,000

\$50,000

\$ 0

\$50,000



Starting To Come Together

More local property value means
less aid from the state.

Less local property value means
more aid from the state.

Key Concept in the Equalization Aid Formula



Number of Children to Educate

\$1,000,000



10

\$100,000

\$2,000,000



10

\$200,000

\$3,000,000



10

\$300,000

\$4,000,000



10

\$400,000

\$5,000,000



20

\$250,000

Notice how “wealth” changes after incorporating the number of children to educate.



Equalization Aid Formula

Takes into account property value
AND number of children to educate.

Property Value per Member

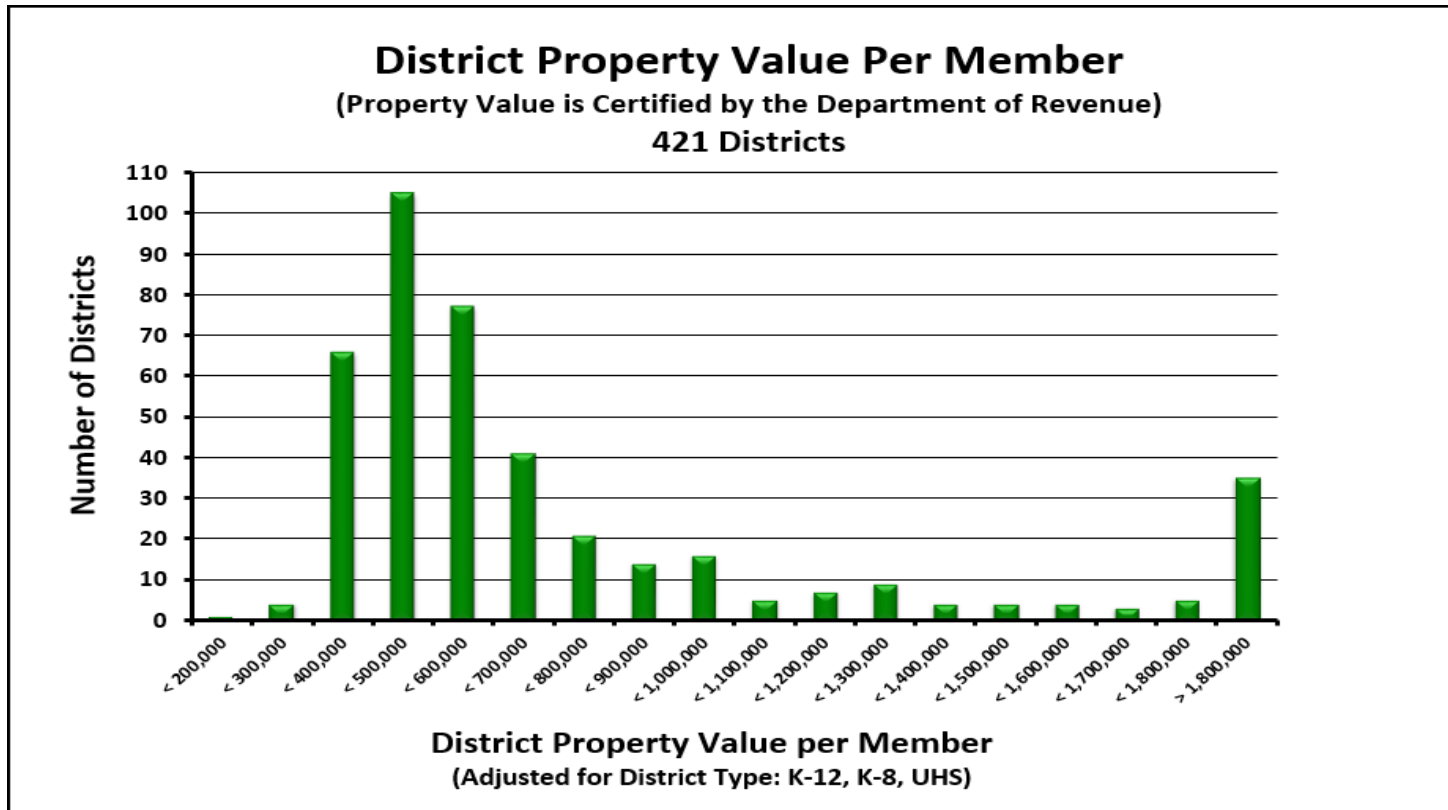
$$\text{District A: } \$400,000,000 \div 800 = 500,000$$

$$\text{District B: } \$400,000,000 \div 1,000 = 400,000$$

All other factors being the same, District B will receive a greater proportion of its costs reimbursed as state aid even though they have the same total property value base.



Property Value Per Member

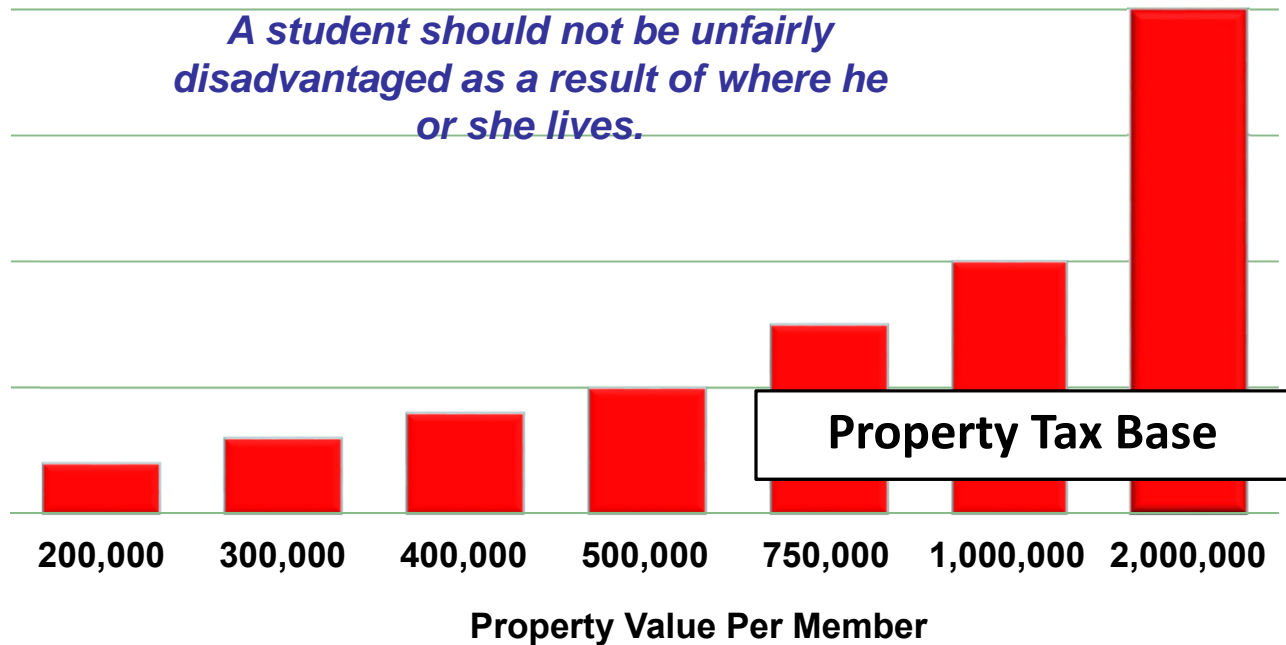




Property Tax Yield

Because property values vary so greatly across the state, the resources districts can raise from just their tax base also vary.

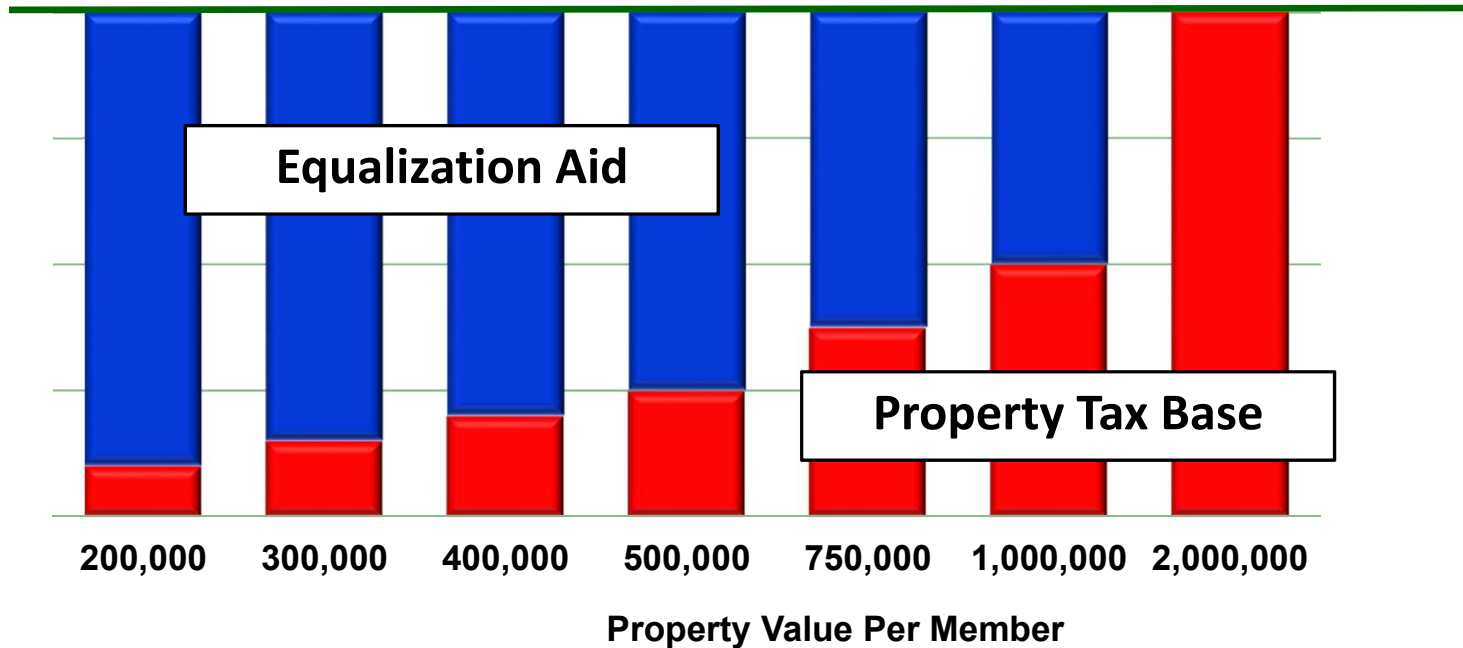
A student should not be unfairly disadvantaged as a result of where he or she lives.





Equalization Aid Equalizes Resources

Districts with less property value per member are aided at a higher percentage than districts with higher values per member.





State Equalization Aid Formula

A formula that incorporates:

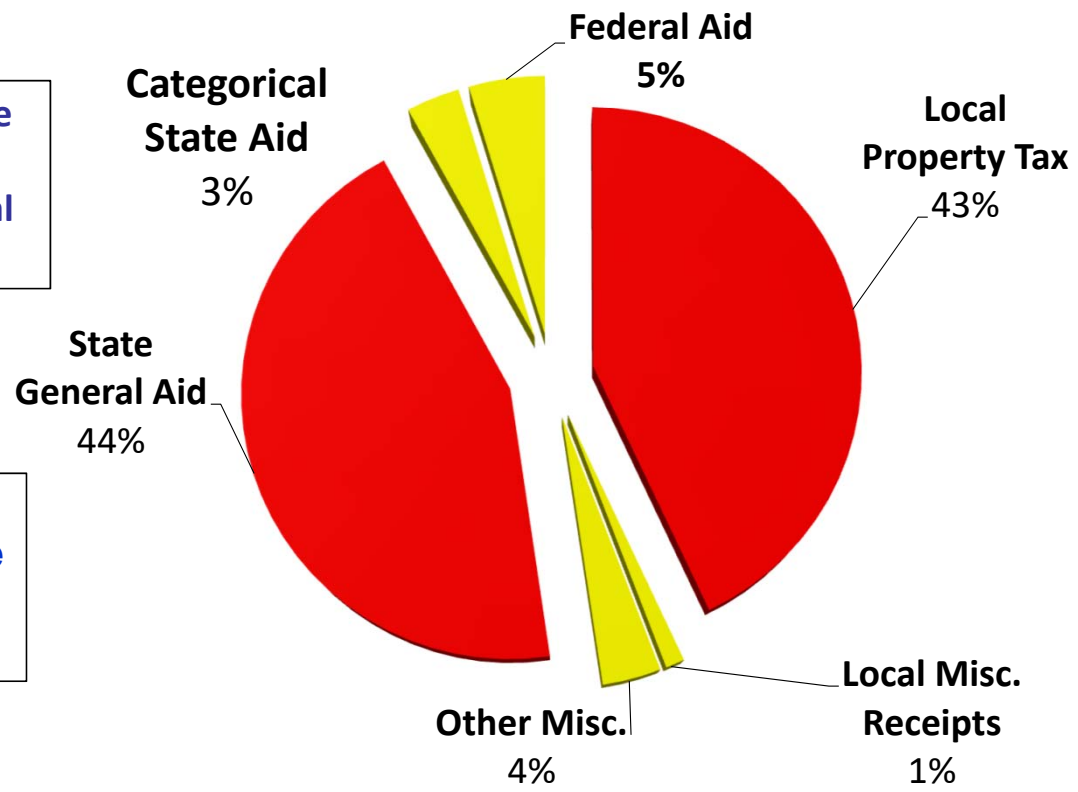
- ✓ Property Value
 - ✓ Number of Students to Educate
 - ✓ Shared Cost
-
- All Prior Year Data
 - 2018-19 aid is based on 2017-18 data.



General Fund Shared Cost

Expenditures that are supported by State General Aid and Local Property Tax

\$1 in debt service costs is treated the same as \$1 in teacher salaries





Property Value Per Member

Property tax base is used to determine district ability to support expenditures.

Uses Equalized Valuation or Fair Market Value, NOT Assessed Value.



3 District Factors

- ✓ Shared Cost
(cost supported by General Aid or Property Taxes)
- ✓ Membership
(resident and private voucher F.T.E. pupils)
- ✓ Wealth
(property value per member)



Comparison of 2 Districts Per-Pupil Funding

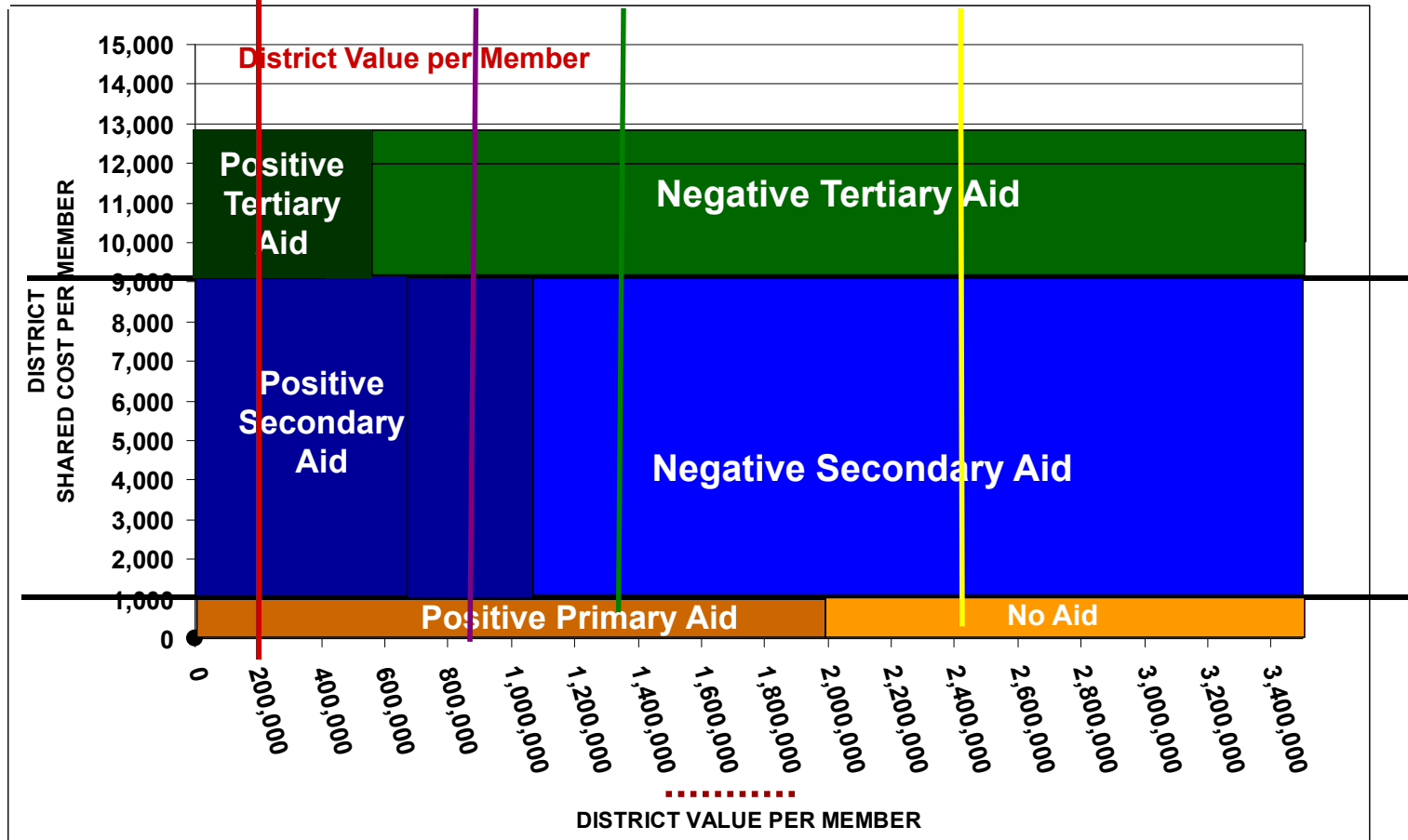
<u>District</u>	<u>Local Funding</u>	<u>State Funding</u>	<u>Total Shared Cost</u>
\$200,000 value	\$3,600	\$8,400	\$12,000
\$600,000 value	\$10,800	\$1,200	\$12,000

**→ More local property value
means less aid from the
state.**



Equalization Aid

(districts are all along the spectrum)





Equalization Aid

It is very important to know where your district is “positioned” in the Equalization Aid formula to understand how the formula impacts your district.

- “Positively-aided” districts that increase shared costs see an **increase** in state aid, while ...
- “Negatively-aided” districts that increase shared costs see a **decrease** in state aid!
(all other factors being equal)



Equalization Aid Review

What happens when a district's value per member exceeds the guaranteed value per member?

At any tier, if a district's equalized value per member is greater than the state guarantee value, then:

NEGATIVE AID



Using What You Know to Learn About YOUR District

QUESTIONS

1.) How would Neenah's aid change if the membership was 10% higher? 10% lower? (everything else same)

Changing membership will change value per member.
More kids = less value per member, which usually means more aid. Less kids = more value per member, which usually means less aid.

2.) How would Neenah's aid change if there was 10% more cost? 10% less? (everything else same)

If more dollars spent in 2017-18, would have resulted in less aid, because Neenah was negatively aided on the tertiary level.

If more spent in 2018-19, would have resulted in more aid, because positively aided.

Neenah is on the line between positive and negative aid and could change from year to year



Using What You Know to Learn About YOUR District

QUESTIONS

3.) How would Neenah's aid change if the property value was 10% higher? 10% lower? (everything else same)

Changing value changes value per member.
More value = more value per member, which usually
means less aid.

Less value = less value per member, which usually
means more aid.



Revenue Limit to Tax Levy

The tax levy is the total amount of property taxes assigned to municipalities in our school district to fund school operations.

It is often expressed as a levy rate, which is shown in “mills” or property tax dollars levied per \$1,000 of equalized property value.





What Drives Your Levy?

Direct Board Control

- Underlevying
- Levies Outside Limit

Indirect Board Control

- Referendum to Exceed
- Prior Year Spending

Little or No Board Control

- Enrollment
- Statewide Trends



Levies Outside the Limit

- Referendum-Approved Debt (Fund 39)
 - Board proposes, voters approve
 - “Temporary” (non-recurring) or “permanent” (recurring)
 - Grants **revenue authority, not taxing authority**
- Community Service Fund (Fund 80)
 - Allowable non-instructional community programming
- Uncollectable Taxes



3 Takeaways

- Board has 2 basic taxing choices
 - Levy to the max or underlevy?
 - Go to referendum?
- Referenda grant revenue, **not** taxes
 - \$1 on the ballot ≠ \$1 tax increase
- Local & statewide trends and state policy changes can drive your levy as much as or more than your own choices



From School Tax Levy to Property Tax Bill



Why Equalized Value Is Used To Distribute Levy

Levy distribution based upon equalized value

- Treats all municipalities as though they had been revalued during the year
- Offsets variances in assessment practices between municipalities
- Updated annually by the State Department of Revenue



Assessed Valuation

- **Determined by municipalities**
 - Consequently, equivalent properties in different municipalities may not be valued equally (Assessment Ratio)
- **Not required to be updated each year**



Distribution of Levy Among Municipalities

A municipality's total *equalized* value in school district

(divided by)

The total *equalized* value for all municipalities in school district

=

the municipality's share of school district levy

	<u>Property Value Growth Over Previous Year (TID-OUT)</u>				Current Year Percent Distribution
	2017	2018	\$ Change	% Change	
City of Neenah	1,888,734,600	1,982,584,500	93,849,900	4.73%	47.619907%
Town of Clayton	419,006,051	448,812,800	29,806,749	6.64%	10.780082%
Village of Fox Crossings	1,115,109,573	1,145,122,220	30,012,647	2.62%	27.504812%
Town of Neenah	437,652,600	438,338,700	686,100	0.16%	10.528504%
Town of Vinland	150,212,879	148,494,115	(1,718,764)	-1.16%	3.566696%
TOTAL	4,010,715,703	4,163,352,335	152,636,632	3.67%	100.000000%



Distribution of Levy *Within* Municipalities

**Property
Owner's
share of
school
district levy**

=

**Property Owner's total
assessed value in
municipality**

(divided by)

**Total *assessed* value for
all taxable property in
the municipality**



Distribution of Levy *Within* Municipalities

2018-19 NJSD Tax Levy Data

Percent of School District Levy	47.619907%	10.780082%	27.504812%	10.528504%	3.566696%
Amount of School District Levy	\$ 14,434,037	\$ 3,267,543	\$ 8,336,964	\$ 3,191,287	\$ 1,081,099
	City of Neenah	Town of Clayton	Village of Fox Crossings	Town of Neenah	Town of Vinland
Property Owner's Assessed Value	\$ 230,000	\$ 230,000	\$ 230,000	\$ 230,000	\$ 230,000
Municipal Assessed Value	\$ 1,888,734,600	\$ 419,006,051	\$ 1,115,109,573	\$ 437,652,600	\$ 150,212,879
Property Owner's Share of Municipal School District Levy	0.012177%	0.054892%	0.020626%	0.052553%	0.153116%
Property Owner School District Tax	\$ 1,758	\$ 1,794	\$ 1,720	\$ 1,677	\$ 1,655

Reassessment Ramifications

Average Increase in Assessed Value = 40%

Total \$ Levy Remains Constant. . .

Therefore . . . Tax Mill Rate is Reduced

**BEFORE
REASSESSMENT**



**LOWER
Relative
Re-Assessment**



20% ↑ Value

**AFTER
REASSESSMENT**



**AVERAGE
Relative
Re-Assessment**



40% ↑ Value



**HIGHER
Relative
Re-Assessment**



60% ↑ Value





Levy and Assessed Value

The effect of a re-assessment on the school district's tax levy or their ability to generate revenue is

\$0

It is simply a redistribution of taxes



Additional Resources

- **DPI Finance Team** - dpi.wi.gov/sfs
- **WASBO** – WASBO.com
- **WI Department of Revenue** - revenue.wi.gov/
- **Legislative Fiscal Bureau** - legis.state.wi.us/lfb/
- **Wisconsin Taxpayers Alliance** - wistax.org/



Neenah Joint School District

Budget History, Strategy, and Reality

- Where have we been spending our money?
 - Facilities
 - Technology
 - Other Post Employment Benefits (OPEB)
 - Staffing
- How have we utilized the equalization aid formula?
- How have we controlled the mill rate while maximizing our revenue?
- What is fund balance?



Neenah Joint School District

- Approximately \$95 million budget
- Presented at an annual budget hearing in October

<http://go.boarddocs.com/wi/neenah/Board.nsf/goto?open&id=B57KXN50EDDC>



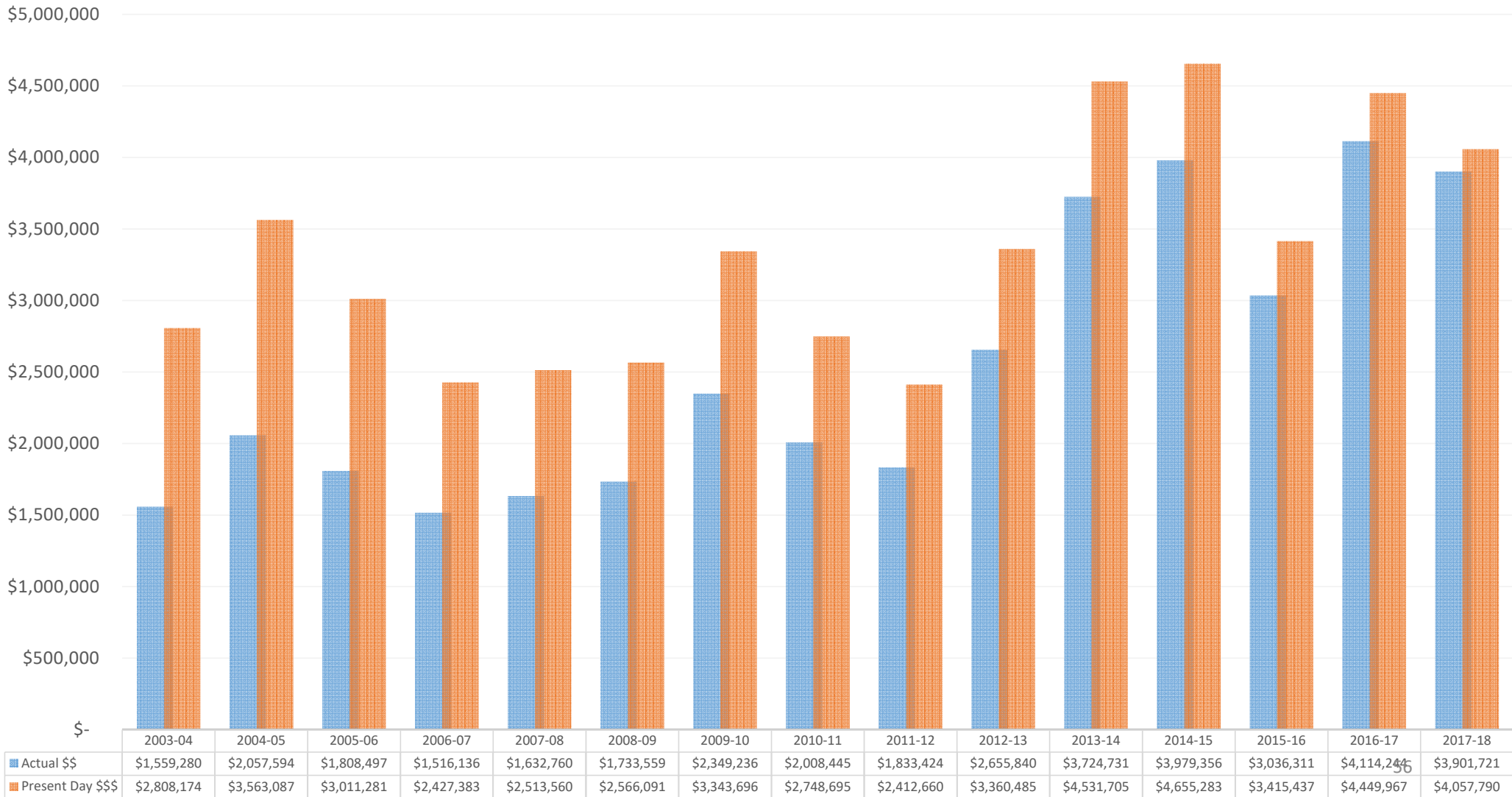
Neenah Joint School District

Budget History, Strategy, and Reality

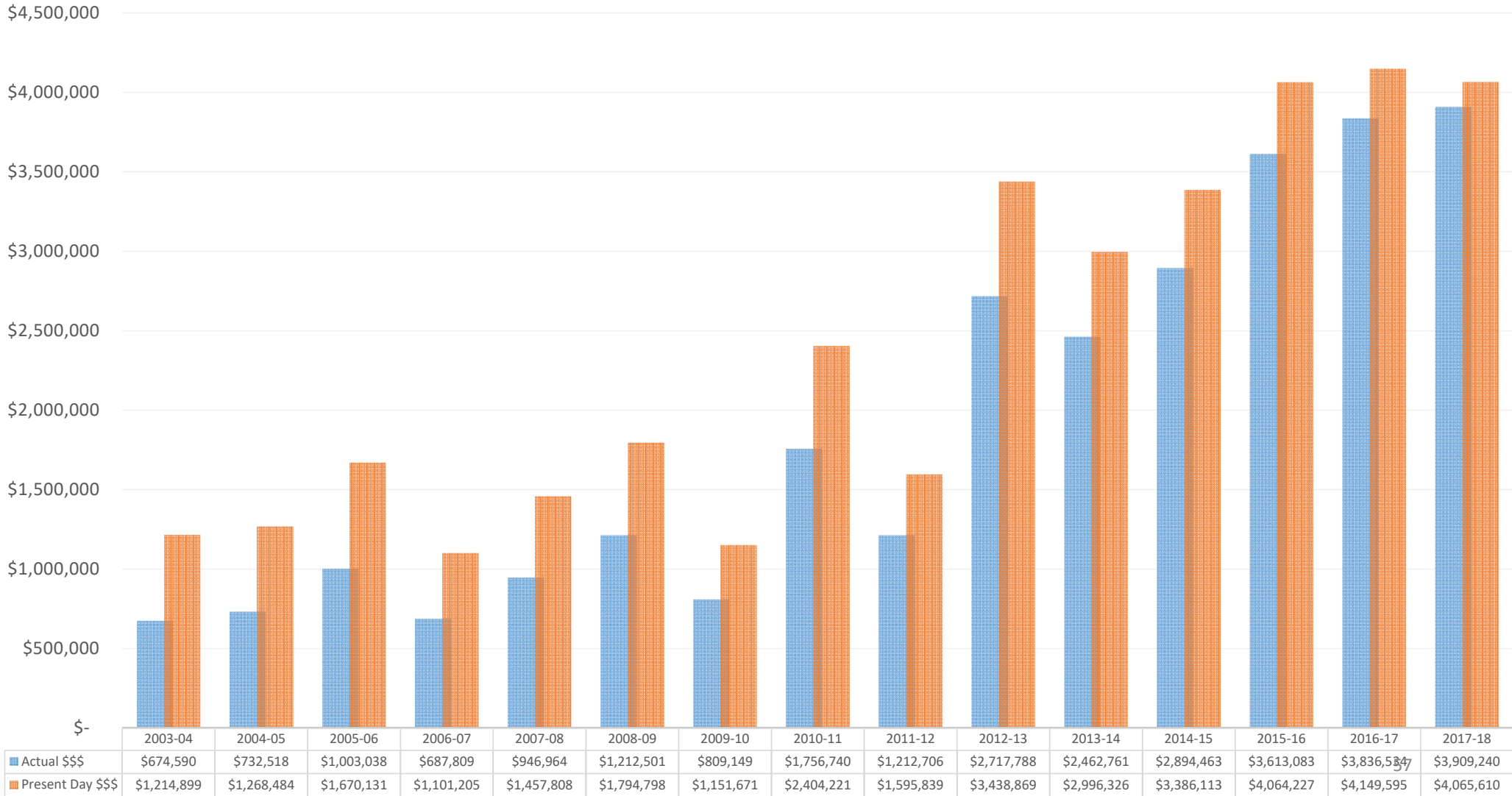
- Facilities & Technology – High Level Metrics

	July 1990 - June 2010	July 2010 - Current	% Increase
Roof SF Replaced	724,765	419,989	
AVG per year	36,238	52,499	45%
Boiler Replacements	13	11	
AVG per year	0.65	1.38	112%
Computer Leases	\$ 1,848,231	\$ 5,976,107	
AVG per year	\$ 92,412	\$ 747,013	708%

NJSD Maintenance and Capital Improvements



NJSD Technology Improvements





Other Post Employment Benefits (OPEB)

What are they?

- Benefits provided above and beyond the Wisconsin Retirement System (WRS) to District retirees
- District is obligated to pay any benefits upon retirement
- 2002 collectively bargained contract significantly increased the benefit
- NJSD benefits included:
 - Stipend
 - Health Insurance
 - Dental Insurance
 - Life Insurance



Other Post Employment Benefits (OPEB)

		Superintendent (retired 2008)	Superintendent (current)	Director of Facilities (retired 2006)	Director of Facilities (current)	Teacher (retired 2011)	Teacher (current)
	Eligibility	15 years of service 55 years of age	30 years of service 57 years of age	15 years of service 55 years of age	30 years of service 57 years of age	15 years of service 55 years of age	30 years of service 57 years of age
Stipend	Benefit	\$ 427,743	\$ 70,500	\$ 244,230	\$ 30,000	\$ 171,595	\$ 30,000
	Funding	Unfunded	Funded by 2021	Unfunded	Budgeted Yearly (as approved by BOE)	Unfunded	Budgeted Yearly (as approved by BOE)
Health Insurance	Benefit @ Retirement	Full Coverage at no cost	Access to group health insurance plan at 100% retiree cost	Full Coverage at no cost	Access to group health insurance plan at 100% retiree cost	Full coverage at same rate as active employees	Access to group health insurance plan at 100% retiree cost
	Total District Cost	\$ 163,645	Implicit Subsidy	\$ 123,483	Implicit Subsidy	\$ 119,247	Implicit Subsidy
Life Insurance	Benefit	\$ 107,750	N/A	\$ 58,500	N/A	\$ 36,500	N/A
	Yearly District Cost Until Death	\$ 3,505	N/A	\$ 1,903	N/A	\$ 1,187	N/A



Other Post Employment Benefits (OPEB)

Supplemental Benefit in Addition to State Retirement Pension

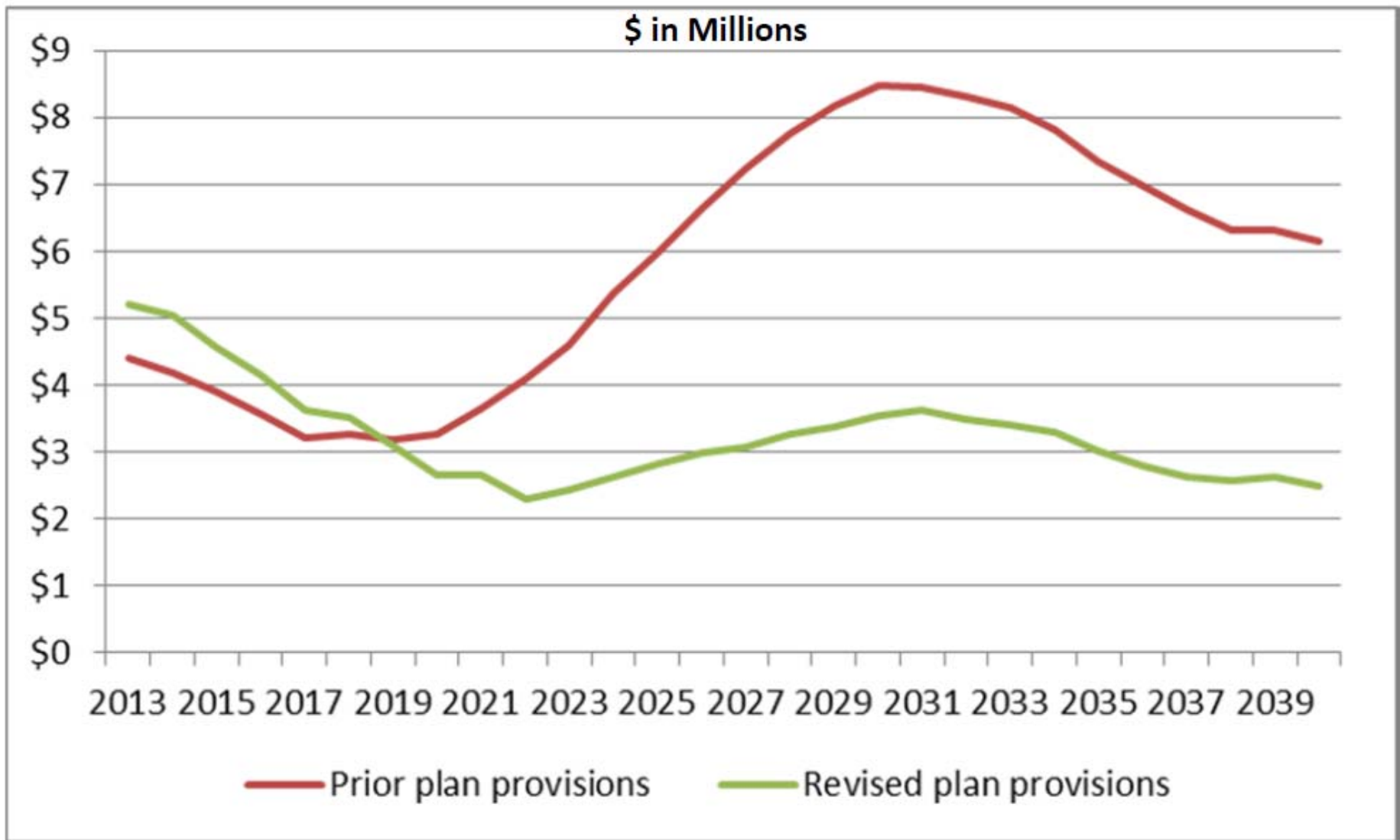
- 2011 and before
 - OPEB Details
 - Retirement stipends ranging from \$171,000 to over \$400,000
 - 87.4% - 100% District-paid health and dental insurance until Medicare, depending upon the group
 - 100% District-paid life insurance (benefit ranging from 1x salary to 2.5x salary) until death if retiree pays premium between retirement and age 65
 - 15 years of service and age 55 to qualify
 - Unfunded Stipend and Health and Dental Insurance Liability: over **\$62 million** if paid immediately, over **\$180 million** if paid throughout the duration of the benefit
 - Unfunded Life Insurance Liability: **\$6.8 million** if paid immediately, **\$12.2 million** if paid throughout duration of benefit
 - TOTAL Liability: **\$68 million** to **\$192 million**
 - TOTAL Funding: **\$138,025 (as of 6/30/2010)**



Other Post Employment Benefits (OPEB)

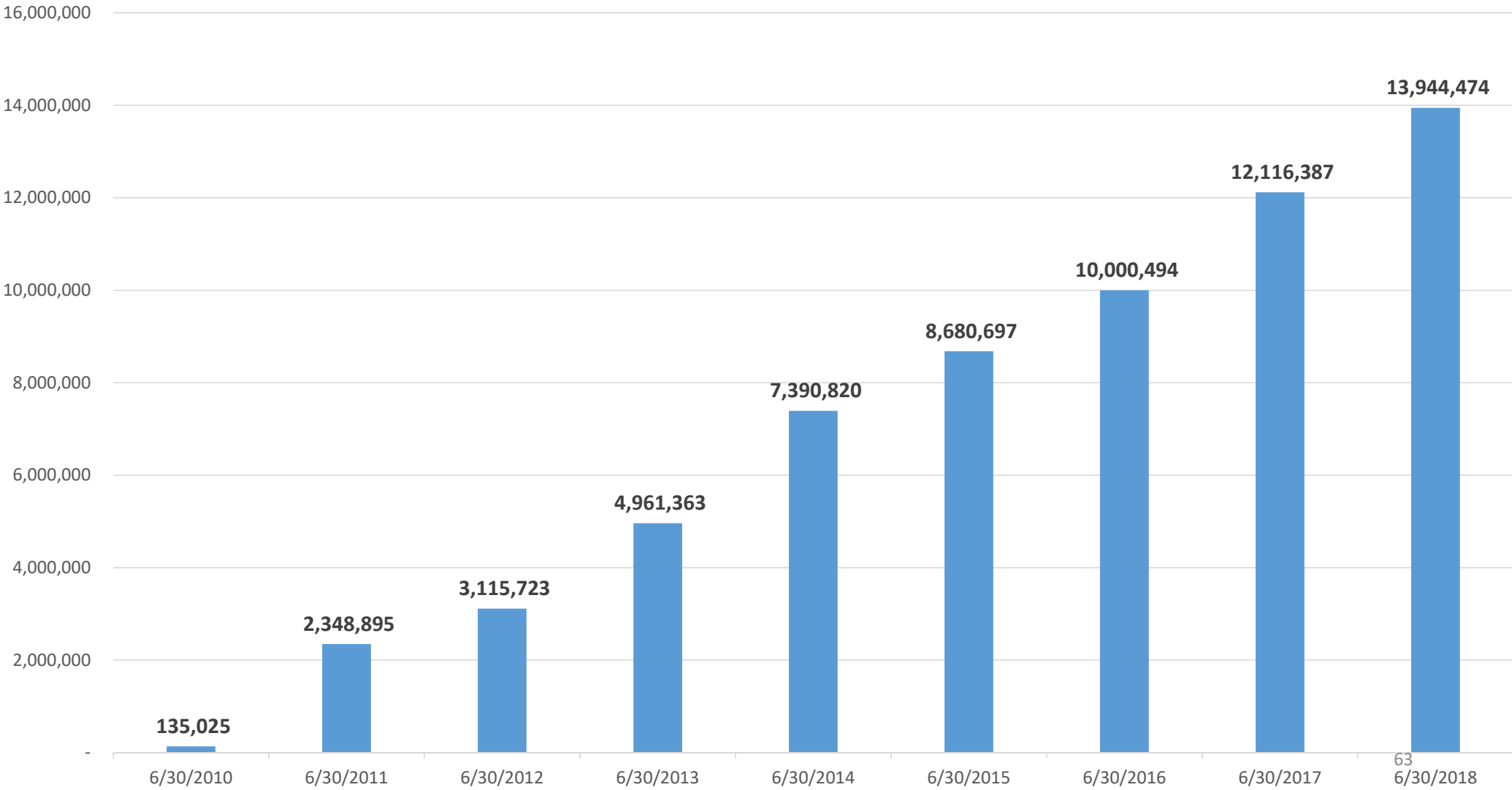
Supplemental Benefit in Addition to State Retirement Pension

- 2012
 - Changed OPEB
 - Maximum retirement stipend is \$99,000
 - Retirees can participate in District health and dental insurance by paying 100% of premium
 - Life insurance benefit changed to access only and eventually eliminated in 2015
 - Qualifications for benefit changed to minimum of 20 years of service and age 57, minimum 21 years of service and age 56, or minimum of 22 years of service and age 55
 - Unfunded Stipend and Health Insurance Liability: approximately **\$42 million** if paid immediately and over **\$86 million** if paid over duration of benefit
 - Unfunded Life Insurance Liability: **\$6.8 million** if paid immediately, **\$12.2 million** if paid throughout duration of benefit
 - TOTAL Funding: **\$2,348,895 (as of 6/30/2011)**



Source for Prior plan provisions is the July 1, 2010 actuarial valuation prepared by Key Benefits Concepts.⁶²

NJSD OPEB Balance History





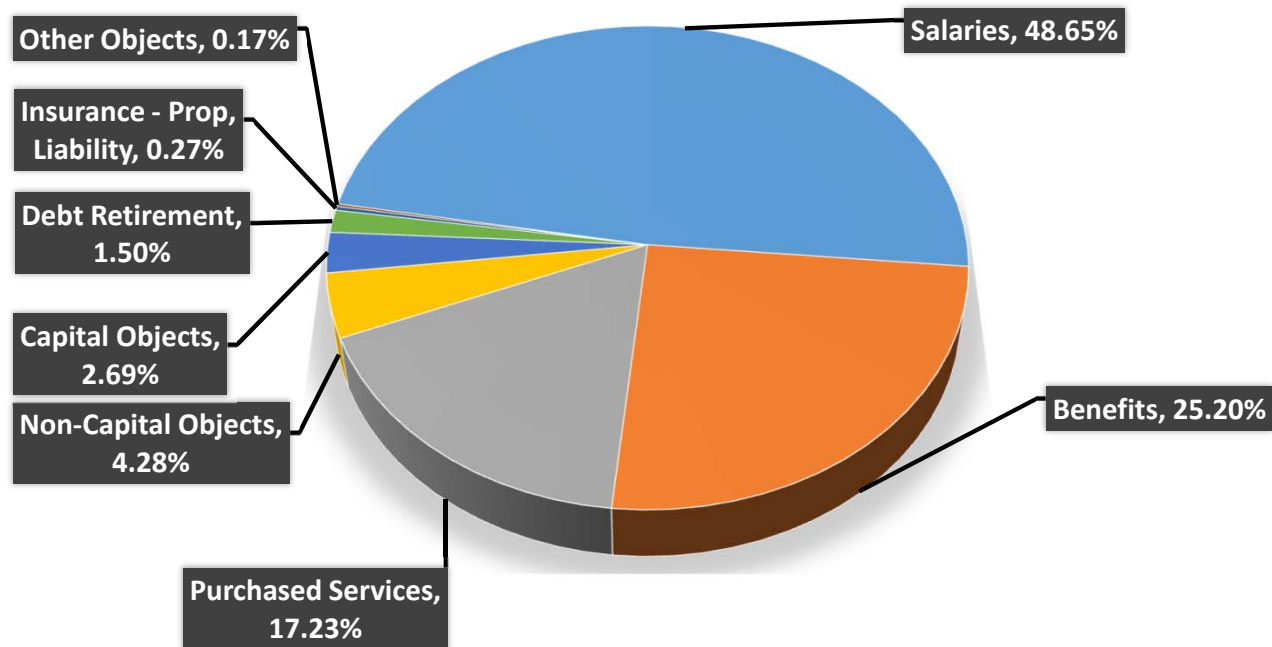
Other Post Employment Benefits (OPEB)

- 2019
 - Unfunded Stipend and Health and Life Insurance Liability: approximately **\$16 million**
 - For the past 4 years, the District committed to contributing any budget surplus to OPEB, which maximizes the equalization aid formula and keeps taxes low
 - Budget \$5.5 million contribution to OPEB every year for the past 5 years to pay for current and future expenses
 - Anticipating to be fully funded by 2021
 - TOTAL current OPEB fund balance: **\$15,444,474**



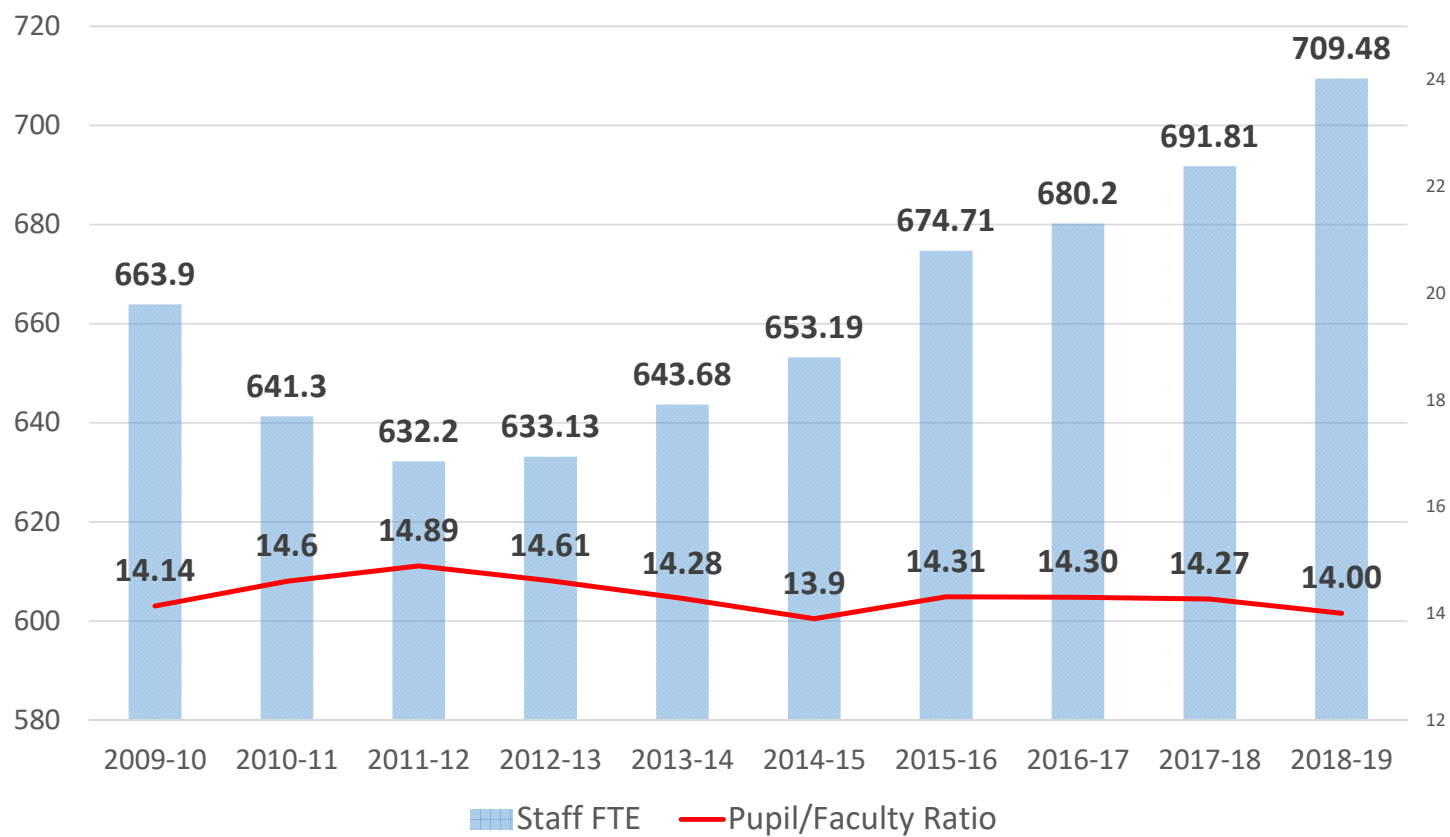
Staffing

- Staff salaries and benefits account for over 70% of the District's budget



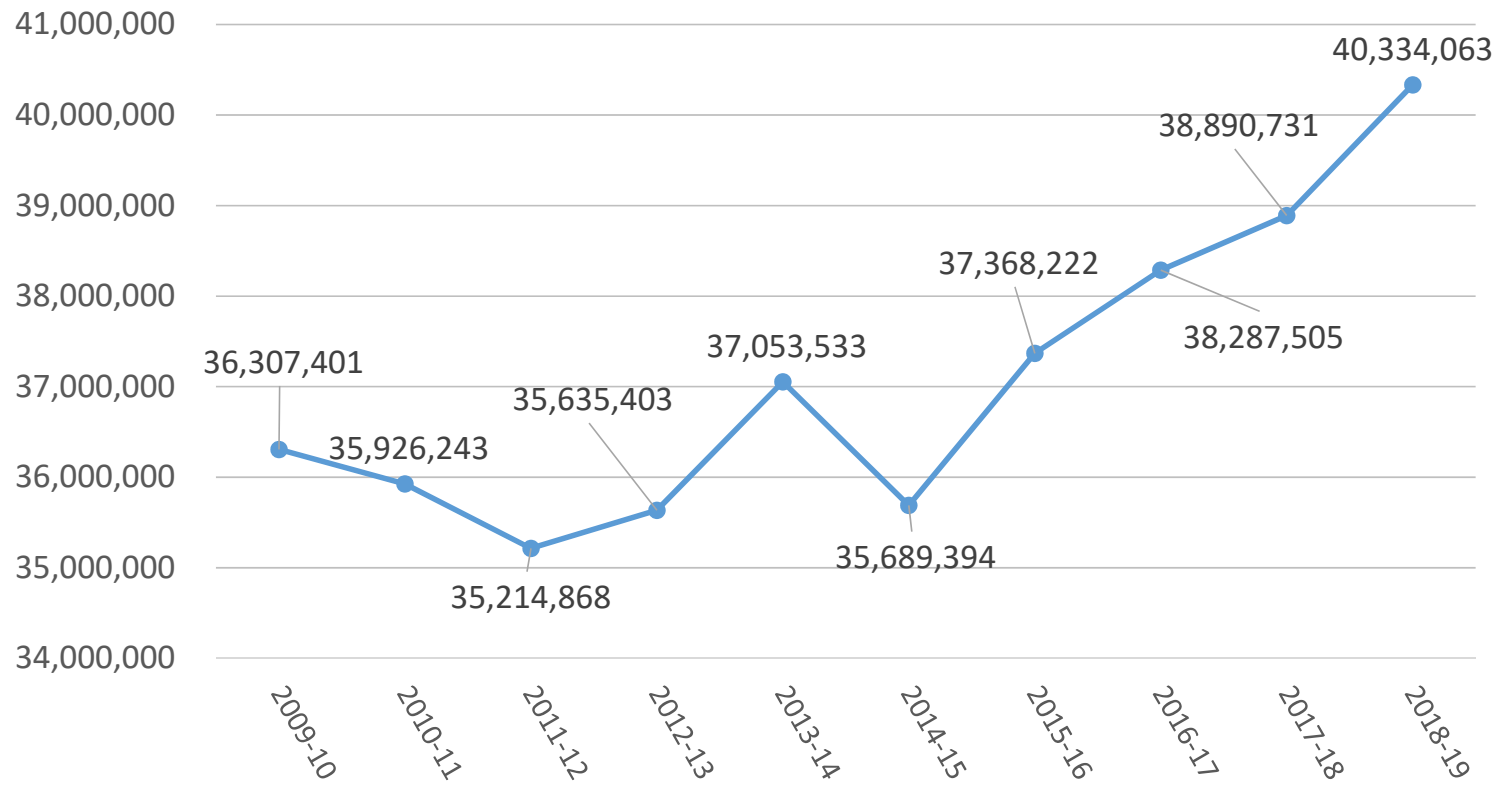


Staffing



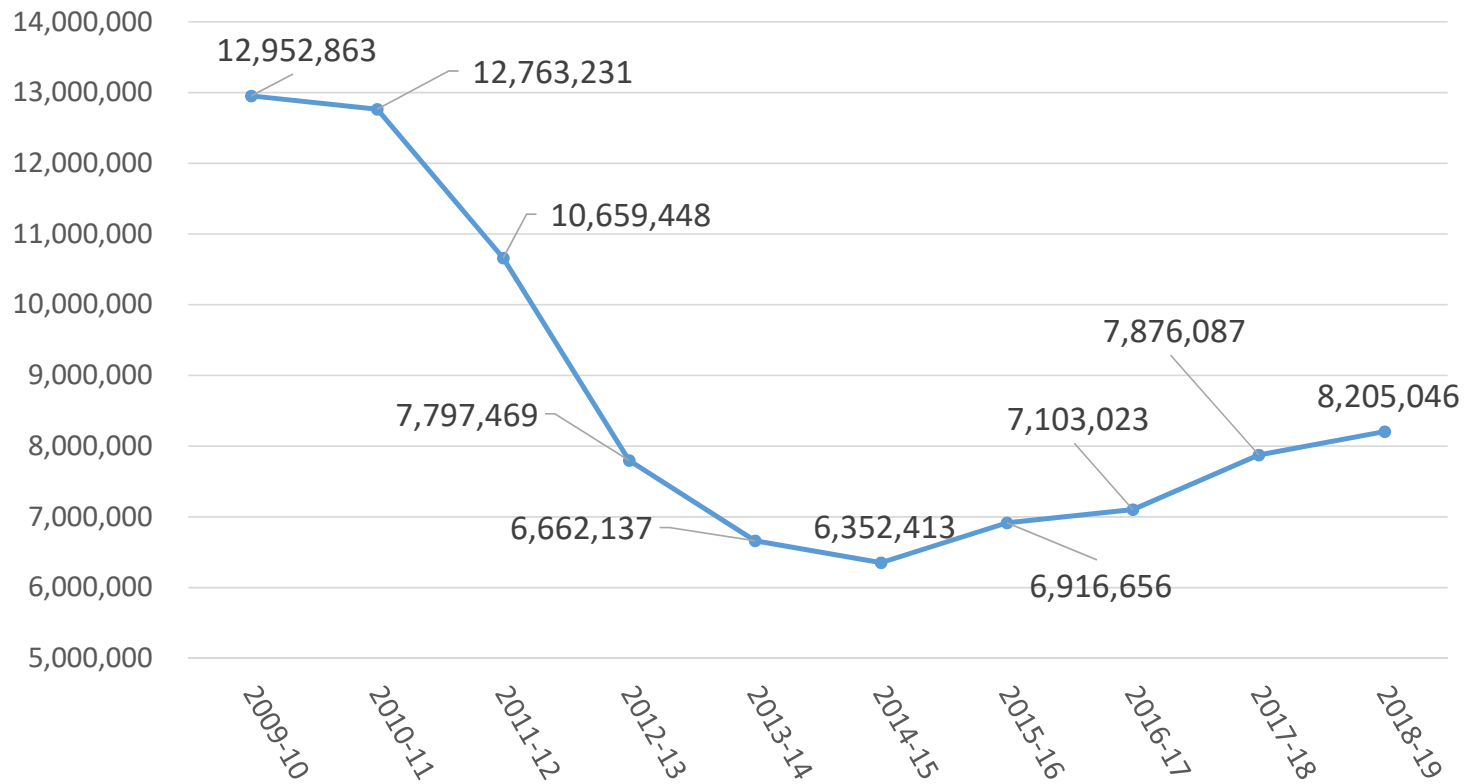


Salaries



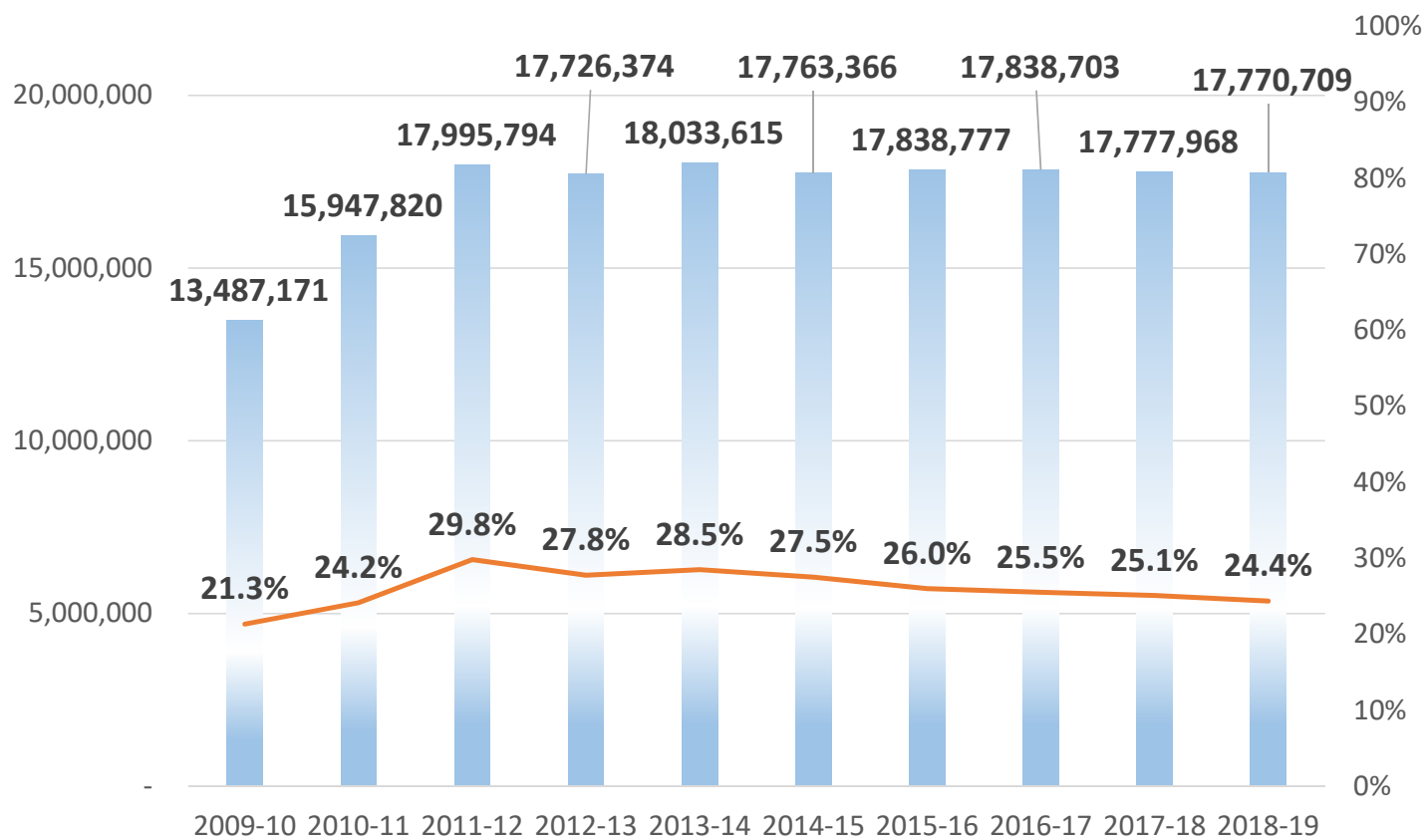


Health Insurance





Fund Balance





Questions

