Memorandum:

To: Jen Cheatham, Supt.
From: Mike Barry, Asst. Supt. Business Services
Date: July 18, 2016
Re: Discussion of Referendum to Exceed the Revenue Limit

The Board has recently expressed an interest in discussing a referendum to exceed the state's revenue limit formula. To help inform the board's discussion, we have prepared the following analysis, supported by an updated Baird Budget Forecast for the 2017-19 period. But first, we begin with an update on the 2016-17 tax levy.

Update on November 2016 Tax Levy Forecast:

The July 1 equalization aid estimate shows a 2% increase in aid. We used a cautious -9% loss of aid in the 2016-17 Preliminary Budget. As a result, the tax levy forecast has improved from a 2.49% increase to just a 0.40% increase. Strong tax base growth will help further diffuse the impact. Please note that the July 1 estimate will be replaced by the October 15 final amount.

Discussion of Referendum to Exceed the Revenue Limit:

The K-12 Revenue Limit Formula
Following the 2011 seismic shift in Wisconsin K-12 funding, state lawmakers have restricted school district revenue growth to *less than one percent per year*. In lieu of sufficient revenue growth, school boards were given the tools of Act 10 to limit employee compensation, reduce staffing levels, or take other cost cutting actions to minimize expenditures.

The impact can be seen in MMSD's recent annual budgets. Over 150 positions have been eliminated in the 2015-16 and 2016-17 budgets. If not for favorable health insurance renewals and extra sources of local revenue to boost the MMSD budget, (i.e. unused levy authority) an additional 100 positions would have been lost.

With approximately 0.75% percent revenue growth, the structural imbalance between revenues and expenditures will continue to grow. Minimal revenue growth makes it unrealistic to assume that normative expectations regarding salaries/wage increases, health insurance increases, and current staffing levels can be sustained.

Despite minimal revenue growth, each annual budget for MMSD must be balanced. The key strategic question is how the balancing will occur and what the impact will be. Three possible approaches are:

- Balance each annual budget by relying heavily on cost cutting, as was done in 2015-16 and 2016-17, with staffing reductions, health insurance cost containment and cost shifting, and program reductions to contain costs.
- Balance budgets by relying primarily a combination of cost cutting measures and additional revenue via a referendum to exceed the revenue limit.
- Balance budgets by relying primarily additional revenue via a referendum to exceed the revenue limit.

<u>Charting Revenues and Expenditures:</u>
The baseline revenue assumption is that the 2017-19 state budget will continue to provide approximately 0.75% revenue growth in a manner similar to the past four years.

We also know that MMSD has no extra factors to boost local revenues. Extra revenue factors, such as unused levy authority, General Fund Balance reserves, or the positive impact of strong enrollment growth fueled by 4K, are no longer available.

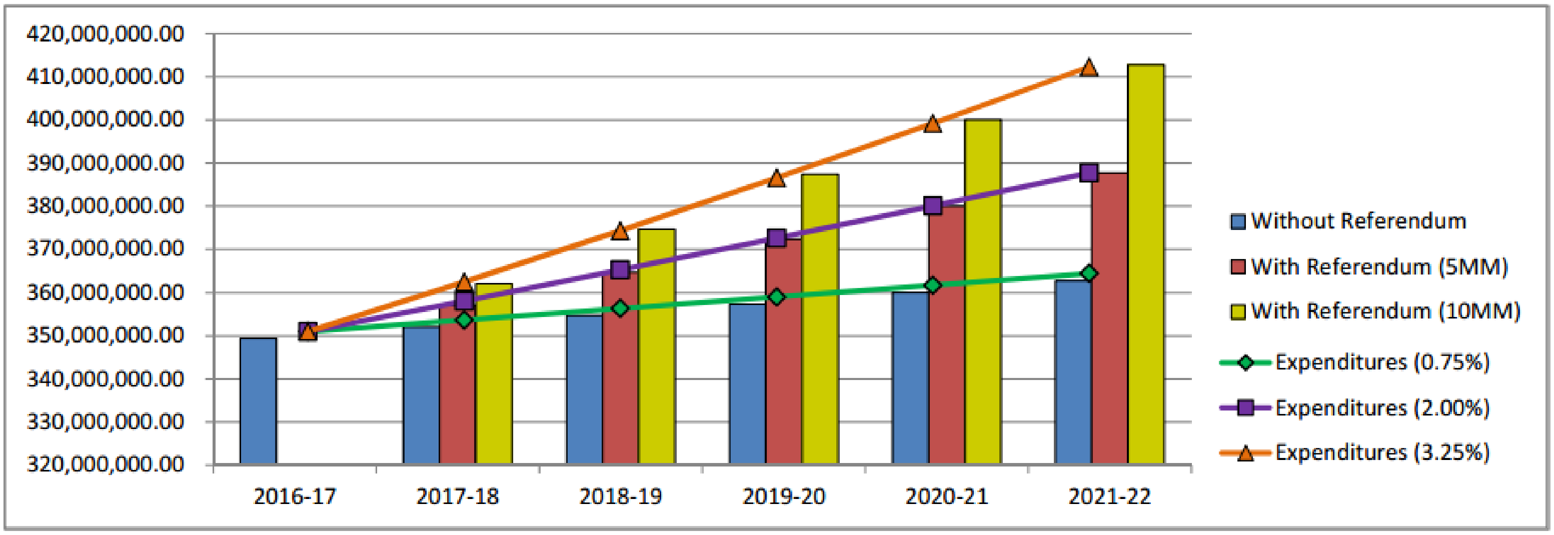
We have run three forecasts, described below, which are shown on the bar chart on the following page:

- The <u>low revenue forecast</u> (green line) holds expenditure growth to 0.75% per year to align with projected revenue. This approach is a more severe version of the 2015-16 and 2016-17 budgets, requiring extensive line item budget cutting, minimal growth in health insurance costs, and perhaps a fundamental redesign of compensation and staffing models to contain costs. This forecast does not rely on a referendum to exceed the revenue limit.

- The <u>maximum revenue forecast</u> (orange line) supports MMSD's normative expenditure pattern driven by the current compensation/benefits plan, current staffing plan and programming, with minimal offsetting budget cutting measures needed to balance the budget. It assumes approximately **3.25%** annual expenditure growth. This forecast relies on additional revenues of approximately $10 million per year via a referendum to exceed the revenue limit.

- The <u>intermediate revenue forecast</u> (purple line) reduces expenditures by 1.25% from the normative forecast, resulting in approximately **2.0%** annual expenditure growth. This forecast requires annual cost cutting of $5.0 million off of the normative expenditure forecast, either through position reductions or less funding for compensation, or other efficiencies. This forecast also requires additional revenues of approximately $5 million per year via a referendum to exceed the revenue limit.

Three Planning Scenarios:
MMSD General Fund Revenue and Expenditure Projections
2016-17 thru 2021-22



The data in the bar chart is an example created to inform board discussion, it is not a specific recommendation.

<u>Constraints on a Referendum to Exceed the Revenue Limit</u>

- MMSD's total educational cost (TEC) per student was $12,691 in 2014-15, while the state average was $10,911, or 16.3% less than MMSD. Part of this difference is related to regional costs for personnel in Dane County versus other areas of the state. Also, like other urban districts, MMSD has greater eligibility for federal funding due to poverty measures, which is reflected in the cost/pupil. It would be important to identify and explain these cost factors.

- The authority of the school board to call for a referendum to exceed the revenue limit may be the subject of new legislation in the 2017-19 state budget. Already, the WASB has reported legislative interest in curtailing the authority of school boards to call for a referendum to exceed the revenue limit. In April 2016, there were thirty-five school district referenda to exceed the revenue limit with twenty-nine gaining voter approval.

- Before considering a referendum to exceed the revenue limit, it is necessary to understand the tax levy forecast before any additional taxing authority. We have identified the major tax levy factors:
    - Flat to minimal enrollment growth over the next few years
    - No unused tax levy authority available
    - The debt service levy already reflects the impact of the 2015 referendum

- The debt service levy does not reflect the impact of any future facility referendum, which would be at least 2-3 in the future
- It will be important to measure the loss of equalization aid for any specific referendum to exceed the limit.

The 2008 Referendum to Exceed the Revenue Limit

In November 2008, on the presidential ballot, MMSD had a referendum question for recurring authority to exceed the revenue limit. The amounts were phased in, beginning in 2009 ($5.0 million), 2010 ($4.0 million) and finally 2011 ($4.0 million) for a combined $13 million of additional levy authority. The vote occurred three years before the Budget Repair Bill and Act 10, and passed with 87,329 'yes' votes and 40,748 'no' votes. The 2008 vote may serve as a useful model if the board decides to act in November 2016.

Conclusion

We cannot predict the course of the next state budget (2017-19) or its successor (2019-21). However, we can project forward the pattern of K-12 funding established over the last six years. We believe it is reasonable to forecast budget gaps in future years, along with more budget cutting actions similar to those of the recent past, including the 2016-17 preliminary budget. Under these circumstances, a referendum to exceed the revenue limit would be a preventative action intended to create a more stable and predictable budget environment.

If the Board would like to call for an operational referendum in November, the Board would have to formally taken action on a Revenue Limit Resolution and a Resolution Calling for a Referendum in advance of the August 30th 70-day ballot filing deadline. We recommend that the Board adopt the required resolutions at least a few days in advance of the ballot filing deadline.