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SPECIAL REPORT

Governor's State of the State Address: Historic Tax Reform Proposed Affecting Technical Colleges

- ***Proposal would shift \$406 million annually from property taxes to state funding.***
- ***Dollar-for-dollar shift would be accomplished by "buying down" operational mill rates.***
- ***Would make primarily locally funded colleges become primarily state funded for the first time.***
- ***Draft bill includes mechanism to restore levy authority if state subsequently cuts funding.***
- ***Debt levy authority, capital projects and borrowing authority, and authority to increase operating levies by net new construction growth factor would not be affected by the bill.***
- ***Bill would not change college or system governing authority.***

Governor Walker tonight is announcing major property tax reform to be implemented by dramatically reducing technical college property taxes and replacing that revenue dollar-for-dollar with \$406 million annually in new state funding. This will "buy down" the operational mill rate by 0.89 at each district. This enormous shift in funding would make technical colleges primarily state, not locally, funded for the first time in their 102-year history.

Because each district's operating mill rate would be reduced by .89, the impact on property taxes will be the same (\$89 per \$100,000 of property value) everywhere in the state. Upon implementation, the remaining levy would vary greatly depending on district. A district with a current operational mill rate at 1.5 would subsequently levy .61 mills for operations plus its existing debt levy. A district with an operational mill rate at 1.0 would levy just .11 plus its existing debt levy. In the latter case, the district's operating levy would almost vanish.

Importantly, the proposed bill allows districts to recapture their levy authority to the extent the state funding is reduced in subsequent years. This is accomplished by a new revenue cap. The new revenue cap for operations would be the sum of a district's

operating levy plus its share of the \$406 million that replaces .89 mills of operating levy. Should the state amount later be reduced, local levy authority would expand under the revenue cap to make up for the loss. This means that a subsequent future year state fund reduction could be restored locally if a district chose to increase its levy.

Districts will otherwise retain their existing authority (based on the bill draft as we understand it) for the following:

- Issuance of debt and existing triggers for referendum approval of capital projects;
- Increasing the operating levy up to the amount based on the district's net new construction growth under current law;
- Ability to seek districtwide referendum approval to levy for operations above the net new growth cap.

Existing WTCS state general aid and categorical aid grants to districts would be preserved at current levels and would continue to be distributed under existing law. This means that general aid (approximately \$83.5 million now, increasing to \$89.5 million in July, 2014) would be maintained and would begin shifting from its traditional distribution formula to the new performance-based funding model by 10% annually beginning in July, 2014. It means that roughly \$22 million would be preserved for WTCS grants to districts (currently called "categorical" aid). Finally, it means that the \$406 million for property tax levy relief would be placed in a new fund to be distributed based on each district's reduced levy amount and would not be run through another formula.

Similarly, all existing law concerning college and system governance would remain unchanged by the draft bill. District board and state board authority and responsibilities would be unaffected except to the extent the levy authority is reduced and new state funds replace them under the new revenue cap.

This proposal's impact would be staggering. Here are approximate current year numbers, compared with how the proposal would change them if it was implemented this year (the actual bill would not take effect until next year and will affect different numbers):

	(\$ millions)	<u>Now</u>	<u>With proposal</u>
Operating levy statewide		615.1	209.1
Debt levy statewide		<u>181.6</u>	<u>181.6</u>
Total levy statewide	\$	796.7	390.7
State fund replacing levy		0.0	406.0
State general aid		83.5	83.5
State grants to districts (formerly "categorical" aid)		<u>22.0</u>	<u>22.0</u>
Total state funding	\$	105.5	511.5

The resulting shift in proportion of funding represented by each major source (local, state and tuition) would be massive.

The following illustrates this for purposes of general perspective, but should not be quoted or re-distributed publicly. It is based on estimated current year numbers (last year's numbers for tuition and fees) and imposing the draft bill on this year's rough estimates. The actual draft bill could be amended and would first take effect next year. Nevertheless, for perspective, consider a pie for which the "big 3" funding sources – local funding, state funding, and student tuition – comprise 100%.

The rough percentage of funding for the "big 3" would change under the proposed bill's \$406 million shift in the current year as follows:

	<u>Now</u>	<u>With shift</u>
Local funding	68 %	33 %
State funding	9 %	44 %
Student tuition	23 %	23 %
	<hr/>	<hr/>
	100 %	100 %

This 100% "pie" does not account for other smaller but important funding sources such as federal funds, gifts, grants and college/institutional sources.

Passing and Funding the Proposal

The Governor's proposal will be introduced (likely tonight or tomorrow) as a bill at his request and is likely to proceed through the legislative process very rapidly, possibly within a few weeks. It will be subject to hearings and amendments and obviously must pass both houses before returning to his desk. Because it will be an appropriations bill, it is also subject to "line item" veto before signing.

This proposal will be funded based on new estimated revenues the state expects to collect in the current biennium running through June 30, 2015. The state now expects to collect approximately \$912 million more over the biennium than previously estimated.

There are multiple and competing priorities for any new state revenue. Various legislators have suggested other uses for new revenue including reducing future structural deficits by increasing the state's "rainy day" fund, or by restoring cuts to various local governments or K-12 funding, among others.

Majority Assembly Republicans appear strongly united behind the Governor's proposal. The slimmer Senate Republican majority is also supportive but is subject to more diversity of opinion about how to use the new revenue. While some changes are possible to the Governor's proposal, especially from the Senate, the proposal would appear to be well-supported and destined for rapid and positive consideration.

Bottom line: The immediate impact of passage (as we understand the proposal to date) is a historic shift from a primarily locally funded to primarily state funded technical college system beginning in 2014-15. It includes some protection against revenue loss due to subsequent state level appropriation choices. It does not affect governance. This is very positive for property tax payers and realizes a longterm goal of being better state supported and less dependent on property taxes.

The proposal fuels lingering concern about the future, however. Further changes to funding or governance may be made in subsequent bills and sessions. The AB 177 proposal to completely eliminate local funding and local control represents some of the ideas for further changes that could surface in various permutations later. The tendency to seek stronger control in return for stronger fiscal support is fairly universal among legislative bodies regardless of party control. This means it will be more important than ever throughout 2014 to link our responsiveness and performance outcomes to our proven governance model. We must continue to demonstrate that local board governance and local control balanced with existing state system coordination and accountability is interdependent with and essential to powerful responsiveness and results.

This report was prepared by Paul Gabriel for members of the Wisconsin Technical College District Boards Association. It is based on the best information available upon publication. Any opinion or analysis in this report is exclusively the author's.