



## What Does It Mean to be Basic Aid?



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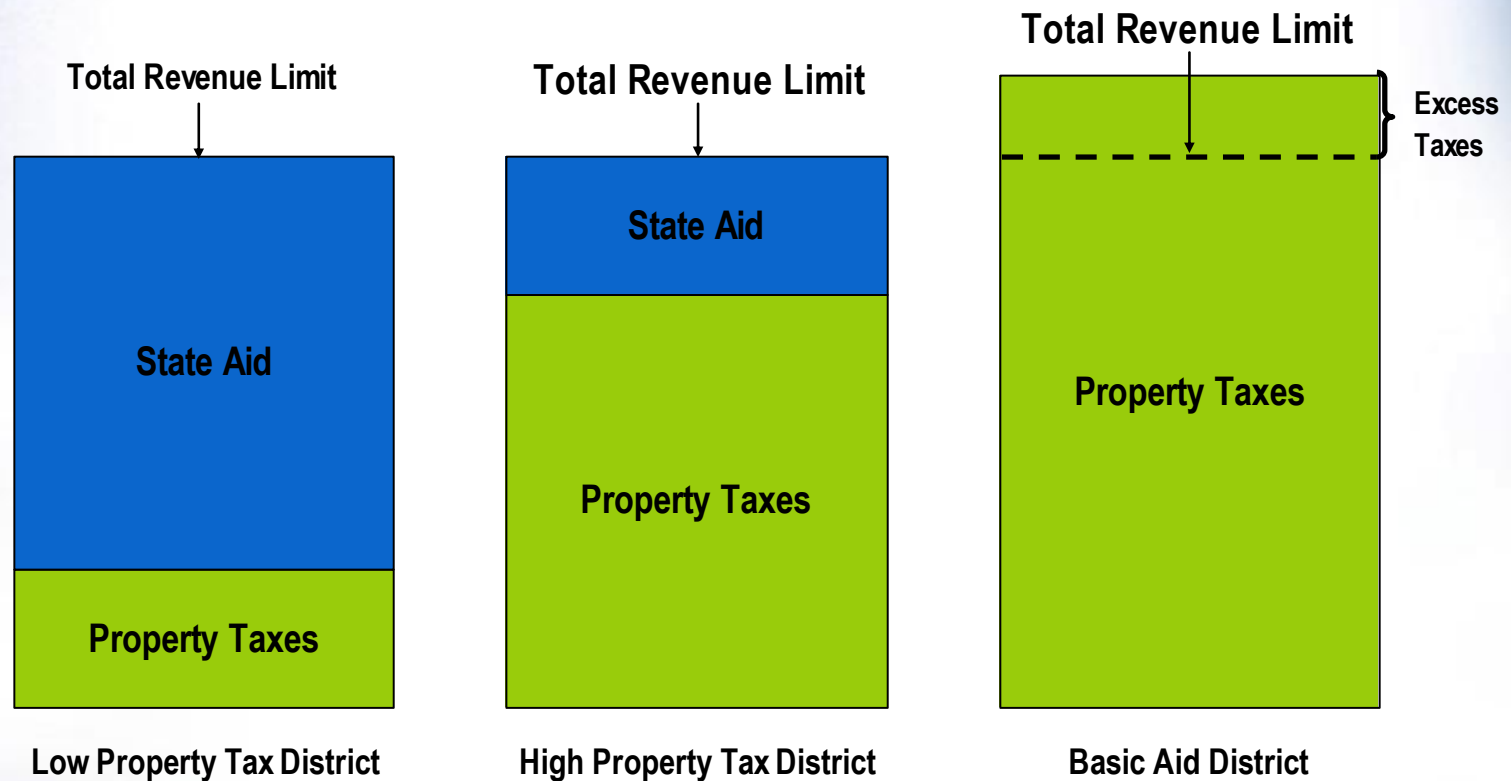
# Overview of Revenue Limits

- Revenue limits have been used to calculate school district general purpose funding since 1973-74
- A district's total revenue limit is equal to the sum of:
  - ▶ Its base revenue limit times its funded ADA
    - The base revenue limit is increased by the COLA each year
  - ▶ Several revenue limit adjustments, such as for unemployment insurance
- The total revenue limit is funded from local property taxes and state aid



# Property Taxes and Excess Taxes

## Revenue Limits and Property Taxes



# Difference Between Basic Aid and Revenue Limit Districts – ADA and Property Taxes



## Revenue Limit Districts



- Additional ADA yields more income
  - Decline in ADA yields less income
  - Increases in property taxes are offset by less state aid
- ➔ ADA matters, property taxes don't

## Basic Aid Districts

- Changes in ADA don't affect unrestricted revenues
    - ▶ But do affect categorical income
  - Increases in property taxes yield additional unrestricted income
- ➔ Property taxes matter, ADA doesn't!



# Things to Watch Out For Under Current Law

- **Changes in Public Employees' Retirement System (PERS) Rate and Unemployment Insurance**
    - ▶ **Two of the revenue limit adjustments compensate districts for increases in the PERS Rate and Unemployment Insurance Rate (and also take away money when these rates drop)**
    - ▶ **Basic aid districts are on their own – they must pay for increases in these rates out of their excess property taxes**
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# Things to Watch Out for – Potential Changes to Law

- **Recognize that state law can – and does – change**
- **For example, basic aid districts lost the \$120 per ADA in “basic aid” that they used to get through the revenue limit**
  - ▶ **State law was amended to provide that state categorical income would be counted first toward meeting the state constitutional requirement that all districts receive at least \$120 per ADA in state aid**
- **One possible change would be to require that basic aid districts make a payment in lieu of taxes when district residents attend charters schools in revenue limit districts (where the state now pays 100% of the cost)**





## Things to Watch Out for – Potential Changes to Law

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- ➔ **But the biggest fear is legislation that redistributes school property taxes within a county, thereby taking away the excess property taxes that basic aid districts have**
  - **Such a scenario is unlikely, but still possible – and something that we must guard against**
  - **Alternatively, there have been proposals to freeze the excess taxes that basic aid districts have at their current levels**
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# The Upside of Basic Aid

- **The benefits of being basic aid include:**
  - ▶ **The district is funded above its computed revenue limit**
  - ▶ **Loss in ADA doesn't hurt – unlike in the many districts with declining enrollment**
  - ▶ **Fast growth in property taxes yield big increases in revenues**



# The Downside of Basic Aid

- **But being basic aid is not all good news**
  - ▶ **It is very hard to accurately project property tax growth, making long-term forecasts unreliable**
  - ▶ **District receives no additional unrestricted funding when enrollment grows (or is higher than estimated)**
- **Basic aid districts need higher reserves**
  - ▶ **No “safety net” until you fall back to the revenue limit**



# The Downside of Basic Aid

- ▶ **Property taxes don't always grow**
  - **Burst of housing bubble could lead to lower assessments and reductions in property taxes – with no additional state aid to offset the loss (unless a district became a revenue limit district)**
- ▶ **District must pay for increases in PERS Rate and Unemployment Insurance costs**
- ➔ **Basic aid district must always worry about potential changes in state law**

