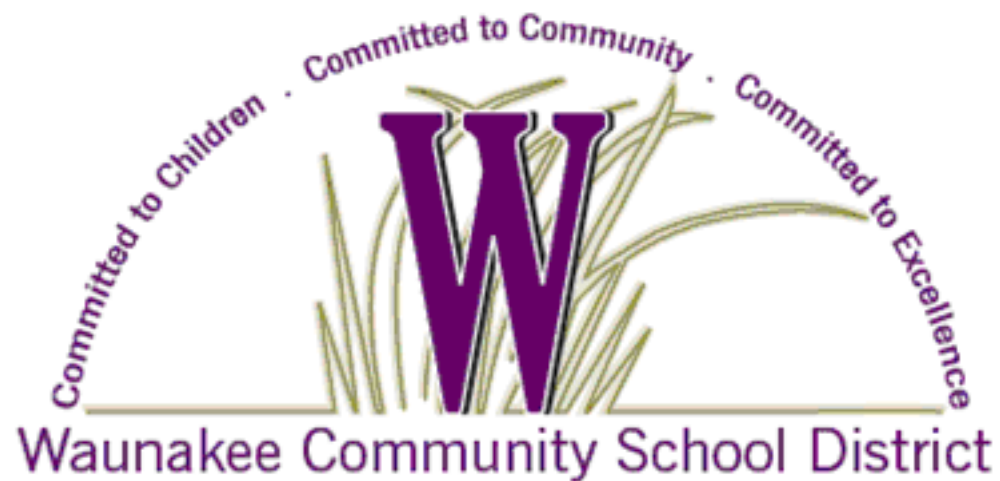


Large Developments and School Finance:

The Financial Impact of the Bishops Bay Development on the Waunakee School District



EXECUTIVE SUMMARY

In December 2009, the Waunakee School District asked the Wisconsin Taxpayers Alliance (WISTAX) to study the fiscal impacts of a new development proposed by T. Wall Properties. The project would be entirely in the school district's boundaries. When fully developed over the next 20-plus years, the development could add 1,000 school-aged children to Waunakee schools. The project would also add significant property value.

This study focuses on the Bishops Bay development's effect on the district's financial position vis-a-vis state-imposed revenue limits and the current state aid formula. In particular, we focus on Waunakee's revenue limit, state aid, and school property taxes through the 2019-20 school year.

Analysis, Data and Assumptions

This report was prepared by Dale Knapp, WISTAX Research Director. The study was done using a school finance computer model developed by WISTAX researchers.

Data for the analysis were secured primarily from: Waunakee School District administration; T. Wall Properties, WISTAX's own *SchoolFacts* database; and the state Departments of Public Instruction (DPI) and of Revenue (DOR).

Assumptions were made regarding: enrollments, property values, expenditures under revenue caps, and state law. The assumptions were developed, tested and revised to ensure reasonableness.

Important Insights

Critical insights were gained from this modeling process. First, there is a disconnect between certain school revenue limit and state aid calculations that can alter school property taxes in the short run. Revenue limit enrollments are calculated on a three-year basis,

while aid enrollments are one year. Further, aid is based on prior-year costs but applied to current year revenue limits. This can affect school tax rates when there is a significant shift in enrollments. The effects, though, are generally small.

Second, despite the fact that revenue limit and school aid formulas are not completely "in synch," the system works to keep school tax rates relatively stable, even in the face of significant district changes.

Finally, school districts can benefit from enrollment growth because costs associated with increased student counts are generally less than the additional revenues they generate.

Key Findings

Summarized here are projected enrollments, property values, revenue limits, state aid, and property taxes. We emphasize the difference in each of these measures created by the new development.

Enrollment. Enrollment projections for the study were created by the state's Applied Population Laboratory using T. Wall Properties' anticipated development timetable. The project is slated to begin in 2012 and the first enrollment effect is in the 2013 (2012-13) school year. By 2014, an additional 119 students would be added to Waunakee schools. That number rises to 229 for the 2020 school year.

Property Values. Equalized property values are set by the state as of January 1 of each year. Since the development would not begin until 2012, additional property value for the district would not show until the January 1, 2013 values are reported for the 2014 school year. By 2020, we estimate that the Bishops Bay development would add \$277 million, or 7.2%, of additional property value to the district.

On a per student basis, values are reduced during the early years of the development. This is due to

■ **State school aid and revenue limit formulas are not "in synch," yet the system works to keep school tax rates relatively stable in the face of significant district changes.**

timing differences between when new enrollments occur (immediately) and when property value is added (one-year delay). However, by 2020, the difference in per student values is less than 2%.

Revenue Limits. A district's revenue limits are the sum of state general school aids and school property taxes. The state has limited growth in these revenues since 1994. The Bishops Bay development does little to change the district's per student revenue limits. Because the limits are calculated using a three-year enrollment average, per student amounts during the first few years of the development are slightly less than they would be without it. By 2020, the figures are nearly the same.

However, the addition of 229 (in 2020) Bishops Bay students raises the district's total revenue above the level it would be without the project. By 2020, the district's total limit with the development would be \$2.8 million, or 4.5%, higher than without it.

District costs associated with the additional 229 students would likely be less than the \$2.8 million. The additional students would generate more teacher and transportation costs, but little in additional administration or maintenance costs. We estimate the additional costs associated with the Bishops Bay students would be approximately \$2.0 million in 2020, or \$800,000 less than the revenue they would generate.

State Aids. Due to additional students, Waunakee would receive more state aid with the development compared to what it would get without it. However, on a per student basis, the situation is varied. Due to timing issues and slight variations in per student property values, the district would receive fewer dollars per student in 2013 and more in the ensuing three years. In the last three years studied (2018-20), per student aids would be up to \$181 lower with the Bishops Bay project.

Tax Levies and Rates. Due to higher revenue limits and more students, the Bishops Bay development would increase the district's total property tax levy. By 2020, we estimate the district would be levying an additional \$2.5 million (5.6% more than without the development).

However, the district will also have more property value over which to spread the extra tax dollars. Based on the model assumptions, estimated tax rates are projected to be slightly lower with the new development. However, the difference is less than 18¢ per \$1,000 of property value.

Tax Burdens. Tax rates are used to estimate likely tax bills on an average \$250,000 property in the Waunakee district. We assume the value of this property grows slightly over the next two years, and then increases an average of 3.5% annually through 2020.

The slightly lower tax rates mean that the owner of this hypothetical property would pay an average of \$46 less per year in school property taxes with the Bishops Bay development compared to its property taxes without the project.

Final Thoughts. The slight reduction in tax rates is due largely to assumptions made about the levels and timing of enrollments and property value changes. Under different assumptions, one could probably show a very small increase in tax rates from the development. The most important result of this exercise, though, is that the aid formula is structured in such a way that projects like Bishops Bay will generally have a very small effect on school property taxes. □

■ **The school finance model shows property taxes would be lower with the development, though the difference averages about \$46 for a \$250,000 home.**

BACKGROUND

T. Wall Properties has proposed a large new development in parts of the Town of Westport and City of Middleton. The 780-acre Bishops Bay project would be entirely in the most southern part of the Waunakee School District. When fully developed over the next 20-plus years, the Bishops Bay project could add 1,000 school-aged children to the Waunakee School District. The development would also add significant property value and could affect the Waunakee School District's financial position vis-a-vis state-imposed revenue limits and the current state aid formula.

In December 2009, the Waunakee School District asked the Wisconsin Taxpayers Alliance (WISTAX) to study the fiscal impacts of this new development. The focus of this study is the impact of the development on Waunakee's revenue limit, state general aids, and school property taxes.

METHODOLOGY

We use a two-phase methodology to estimate the fiscal impact of the new development. In the first phase, we develop estimates of future revenue limits, state aid, and tax rates assuming the Bishops Bay development does not exist. The second phase of the study recalculates those estimates assuming the project goes forward as planned. The development's impact on the district is the difference between those two estimates.

Financial Model

The financial estimates are generated using a WISTAX model of Wisconsin's school finance system. The model uses assumptions about district enrollments, property values, and costs along with estimates of state policy to estimate future revenue limits, state aids, and property taxes.

As previously mentioned, the Bishops Bay development is expected to be phased in over more than 20 years. However, projecting school finance over a period that long can be difficult. For this report, Waunakee's financial situation is estimated for 10 years, through the 2019-20 school year.

Referendum

The forthcoming April referendum also needs to be factored into the study. District administration has said the district needs additional classroom space. To accomplish that, district residents will vote on several referenda in April. If passed, future district finances will be affected.

District officials note that the additional space being requested is not contingent on the Bishops Bay development. Moreover, the additional space created by passage of these referenda are sufficient to accommodate the first several years of the development; i.e., additional space would not be needed during the years covered in this study.

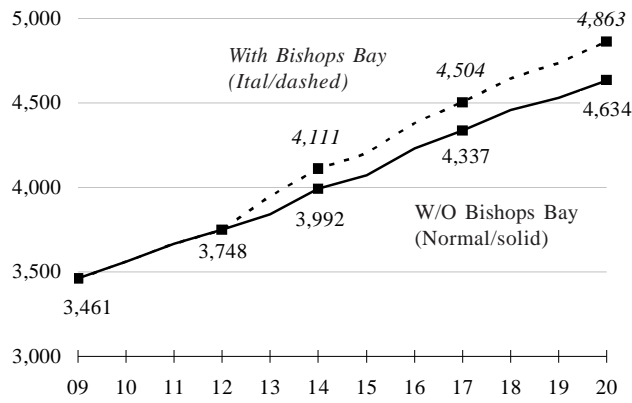
Thus, the financial estimates in this study assume passage of the April referenda. The main findings of the study are unaffected by this assumption. However, an addendum on page nine discusses study results should the referenda not pass.

BISHOPS BAY OVERVIEW

The Bishops Bay development would be partly in the City of Middleton and partly in the Town of Westport. It would be entirely in the Waunakee School district. The proposed project would have approximately 348 acres of residential development and 51 acres of commercial properties. The remainder of the 780 acres would be a combination of parks and open spaces, streets, properties used for stormwater management, and institutional properties.

■ **The study uses financial estimates with and without Bishops Bay to determine the impact of the project on the Waunakee School District.**

Bishops Bay to Add 200+ Students by 2020
Enrollments With and Without Bishops Bay Development



When completed, Bishops Bay would have 2,950 residential units. The value of those units will vary widely from modestly-priced townhomes to some high-end homes priced at more than \$750,000. The development is expected to begin in 2012 and to be phased in over more than 20 years.

ENROLLMENT EFFECTS

This study relies on enrollment projections created in 2009 by the state Applied Population Laboratory (APL) for the Waunakee School District. APL researchers used T. Wall Properties' anticipated housing development scenario to forecast the project's impact on student counts. APL also provided the district with estimates of enrollments without the development. APL forecasted enrollments through the 2018-19 school year. We supplement that with our own 2019-20 projections using average increases over the preceding three years.

The chart above shows enrollment projections with (dashed line) and without (solid line) the Bishop's Bay development. The development is expected to begin adding students to the district in the 2012-13 school

year. By 2019-20, Bishops Bay would add an estimated 229 students to Waunakee schools.

PROPERTY VALUES

Equalized (or fair market) property values are used to help determine a school district's state aid. Districts with relatively high per student values receive less state equalization aid; those with low per student values receive more. Estimating future property values is more difficult in today's volatile market compared to one in which values are consistently rising.

Equalized values for school districts are set as of January 1 of each year. Thus, for the 2009-10 school year, district values are those as of January 1, 2009. Since the Bishops Bay development is not set to begin until 2012, additional value will not be incorporated into the district's total values until January 1, 2013, and will become effective for the 2013-14 school year.

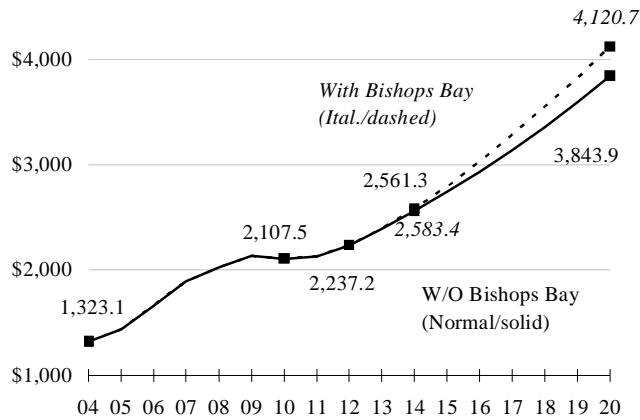
Statewide, 2009 equalized property values declined for the first time since 1986. The decline was only the second since at least 1959. Waunakee's decline (-1.2%) was slightly larger than the state's (-0.9%).

With the real estate market still uncertain, value changes going forward are difficult to gauge. In early 2009, state officials were expecting statewide values to increase modestly (0.1%) in 2010. We use that as the starting point for our estimates. We project a modest recovery in values in 2011 (+4%), followed by 6% average annual increases in subsequent years.

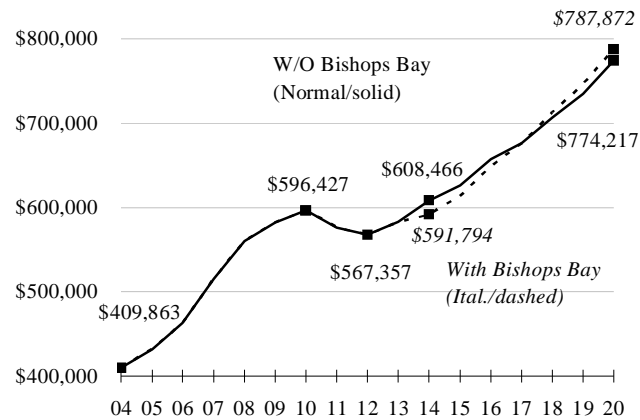
Based on our estimates of statewide growth and Waunakee's past growth relative to the state, we estimate the district to grow just over 1% in 2010, 5% in 2011, and an average of 7% in subsequent years. The chart on page five (left) shows Waunakee's estimated values (solid line) through the 2019-20 school year should the Bishops Bay project not go forward.

■ **Bishops Bay would begin adding students to Waunakee schools in 2012-13. By 2019-20, it would add 229 students to the district.**

Bishops Bay Adds \$277 Million in Property Value ...
 Equalized Property Value , 2004-2020, \$ Millions



... But Has Little Impact on Per Student Values
 Equalized Value Per Student, 2004-2020



■ Bishops Bay will add more property value to the district. However, the impact on per student values will be small.

The Bishops Bay project will add significant property value to the district, though much of the increase will occur in 2020 and later. Using information from T. Wall Properties, we estimate the project would raise Waunakee’s equalized value growth rate from 7% to just over 8% annually through 2020. As the chart above shows, the increase in value is small in the first year (\$22.1 million), but grows over time. By 2019-20, the development would add approximately \$277 million, or 7.2%, of additional value to the district.

Values Per Student

As previously mentioned, an important part of the state aid formula is property value per student. With the Bishops Bay development, both property values and student counts will rise, though timing of the changes do not coincide. With the project beginning in 2012, additional students are expected to enter the district beginning in 2012-13. However, that first year of additional property value is not accounted for until the following school year, 2013-14.

Due partly to this timing issue, the Bishops Bay development lowers per student values early on (see chart above). However, by 2017, per student values are the same with or without the development. In 2020, per student values with the development are estimated to be 1.8% higher than without it.

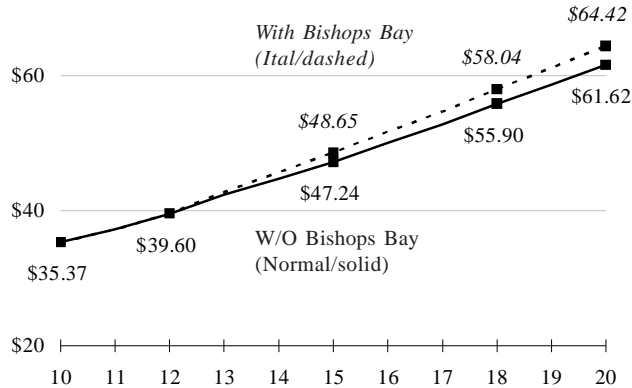
The small differences in per student values is important. Waunakee’s values relative to the state average is an important determinant of state aid. With little difference in per student values, Waunakee’s per student state aid should be little affected by the new development. State aid is discussed in detail on page seven.

REVENUE LIMITS

Since the early 1990s, the state has limited the amount of revenue districts can collect from a combination of general (or equalization) aids and property taxes. Each district has its own per student limit, which is based on its 1992-93 per student revenues. District revenue limits are increased each year by a legislated amount. In 2008-09, allowable increases were just

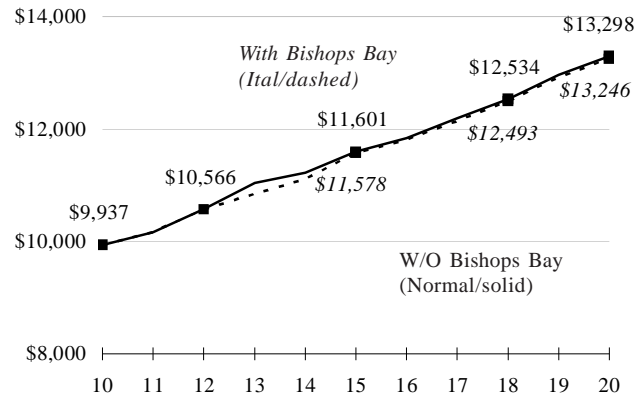
Additional Bishops Bay Students Bring Revenue

Total Revenue Limit, 2010-2020, \$ Millions



Per Student Revenue Limits Nearly Unchanged

Per Student Revenue Limit, 2010-2020



■ Additional students from the development will add to Waunakee's total revenues, though they will have little effect on per student revenues.

under \$275. State budget problems led to state legislators reducing 2009-10 and 2010-11 allowable increases to \$200.

Annual per student revenue limit increases are slated to return to \$275 in 2011-12 and increase at the inflation rate in subsequent years. However, those amounts are subject to legislative changes and may depend on state fiscal health in 2011. We assume annual inflation rates average 3.1% per year from 2012 forward.

Revenue limits are calculated on a per student basis, using a three-year rolling average of student counts. A district's total revenue is its per student amount multiplied by the three-year student average.

As the chart above shows, Waunakee's total revenue limit without the Bishops Bay project is projected to increase from \$35.37 million in 2009-10 to \$61.62 million in 2019-20. On average, the district's revenue limit is projected to increase 5.7% per year. The relatively large annual increase is due primarily to growing enrollments.

The additional students from the Bishops Bay development will add dollars to the district's revenue limit. As the chart (above, left) shows, the additional amounts

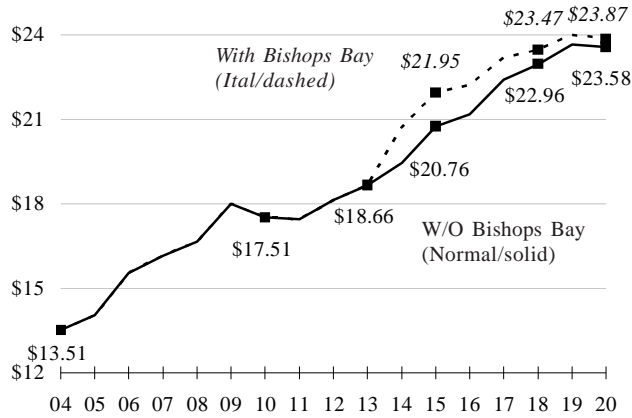
are relatively modest in early years (\$1.4 million in 2015) and increase to \$2.8 million in 2020.

The students will also add costs, though they will likely be lower. Based on the district's current costs and staffing ratios, the additional 229 students would generate approximately \$2 million of additional costs, or about \$800,000 less than the increased revenue. These dollars could be used in many ways, including additional programming or helping pay the cost to continue current district programming.

The fact that additional revenues are greater than additional costs for these new students shows the value of growth under revenue limits. Districts that are not growing have the opposite problem with costs outpacing revenues.

While the total revenue limit grows, Bishops Bay has almost no impact on revenue per student. The chart above shows per student amounts (relative to current-year enrollment) with and without the development. In the first two years of the project, Waunakee's per student revenues are below projected revenues without Bishops Bay. This is due to the way revenue limits are calculated.

Additional Bishops Bay Students Bring State Aid
Total General Aid, 2004-2020, \$ Millions



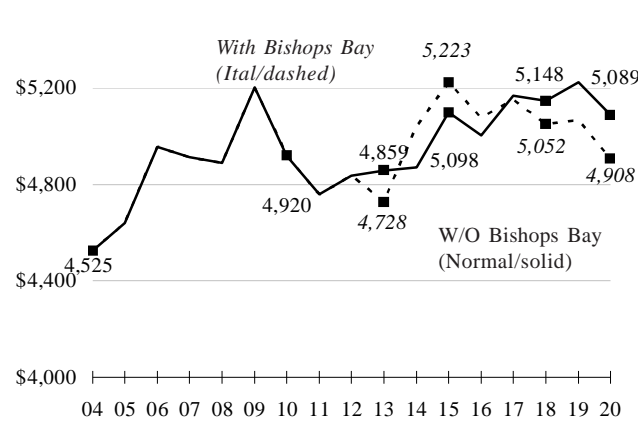
Limits are calculated using a three-year rolling student count. In 2013, when the project adds additional students, only one-third of those students are used in the revenue limit calculation. This has the effect of temporarily reducing the district’s per student amount relative to the baseline scenario (without the project). After the third year, there is little difference in per student revenues, although total revenues are higher due to more students.

STATE AIDS

State equalization aids can fluctuate depending on state policies and changes in district spending, enrollment, or property values. The two most critical factors for a district’s total state aid are total statewide aid changes and changes in the district’s enrollment.

State fiscal problems since the early 2000s have led to wide swings in statewide aid changes. In 2006 and 2007, increases topped 4.5%. Statewide general aids were nearly unchanged in 2008, rose less than 2% in 2009, and were cut more than 3% in 2010. While Waunakee’s total aids rose during most of these years, the increase was due largely to enrollment growth.

Per Student Aids Fluctuate
Per Student General Aids, 2004-2020



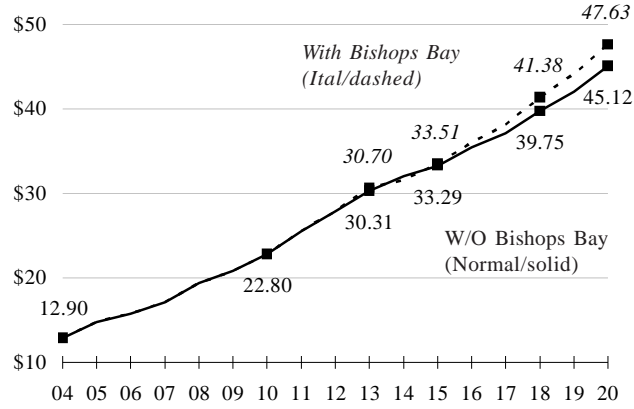
■ Total equalization aids to the district will be higher with the development. On average, per student amounts will be similar with or without the project.

As the chart above, left shows, Waunakee’s total state general aids rose from 2004 through 2009. Despite continued enrollment growth, aids were reduced this year to \$17.51 million. With statewide aids nearly unchanged again next year, we project a small decline (-0.4%) for Waunakee. Modest statewide aid increases combined with rising enrollments allow the district’s total aids to continue to grow, reaching \$23.58 million in 2020.

Total aids are higher with the Bishops Bay development. The increase is due mostly to a combination of more students and slightly different per student property values and costs in the early years.

Since state aids are based on prior year costs, aid changes do not occur until the 2014 school year (based on 2013 costs). As discussed on page five, the district’s per student property values with Bishops Bay are slightly lower than without it during the first several years. This increases the district’s aids during those years. By 2020, we project the Bishops Bay development would provide the district with just under \$300,000 of additional state aid.

Total Property Tax Levy Rises With Additional Students
Total Property Tax Levy, 2004-2020, \$ Millions



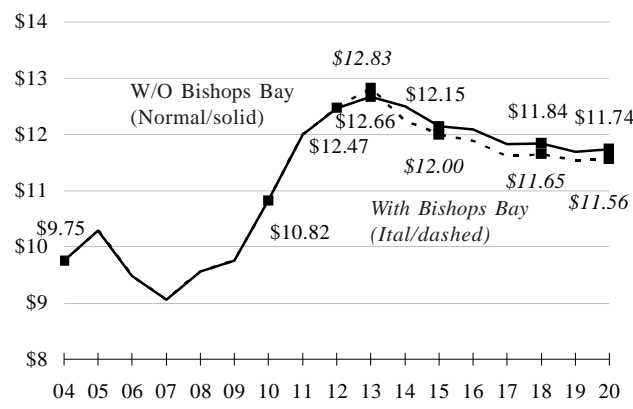
On a per student basis, there are wider fluctuations. The chart on page seven (right) shows the reduced per student amount in 2013 due to unchanged aids (based on prior year costs) and more students. Per student amounts are higher over the next several years as per student property values are lower than they would be without the development. Slight differences in per student costs and equalized property values lead to differences in per student aids. If the Bishops Bay development had no effect on these per student amounts, per student aids would be the same under both scenarios.

PROPERTY TAXES

School property taxes depend on district revenue limits, state aid, and referenda passed by district voters. The chart above shows total property tax levies with and without the development. The difference is small in early years (less than \$40,000 in 2013), but grows to \$2.5 million by 2020. As a percent of the levy without the development, the 2020 difference is 5.6%.

The main reason total levies are higher is more students, which lead to higher total revenue limits. As mentioned, the district’s revenue limit is the sum of

Property Tax Rates Similar
Estimated School Property Tax Rates, 2004-2020



■ **Waunakee’s school tax rate would be slightly (<2%) lower with the Bishops Bay development than without it.**

general school aids and property taxes. A higher limit will generally lead to higher total levies.

The impact on the property tax rate, though, is different. Based on the assumptions in the model, estimated property tax rates are lower with the development than without it (see chart above). The difference, however, is relatively small.

The difference in tax rates is due to several factors, including the use of different student counts for revenue limits and for state aid, the one-year delay in aid payments (paid on prior-year costs), and assumptions about costs and property values.

While tax rates may rise and fall, the amount any individual pays also depends on changes in the value of their property. We examine the school tax on a property valued at \$250,000 in 2009 (for 2009-10 property taxes). The home’s value is adjusted annually based on estimated changes in residential property. These estimates factor out changes due to new construction, including individual property additions. Residential properties in the district have increased an average of 4.1% per year from 2003 through 2009. We estimate a typi-

Waunakee's Estimated School Taxes
Home Valued at \$250,000 in 2009,
2004-2020

School Year	Home Value	School Tax		
		W/O BB	With BB	Diff.
2003-04	\$196,968	\$1,920	\$1,920	\$0
2004-05	\$208,144	\$2,142	\$2,142	\$0
2005-06	\$229,547	\$2,177	\$2,177	\$0
2006-07	\$243,195	\$2,203	\$2,203	\$0
2007-08	\$257,549	\$2,464	\$2,464	\$0
2008-09	\$258,892	\$2,526	\$2,526	\$0
2009-10	\$250,000	\$2,704	\$2,704	\$0
2010-11	\$251,375	\$3,016	\$3,016	\$0
2011-12	\$257,659	\$3,213	\$3,213	\$0
2012-13	\$266,677	\$3,376	\$3,420	\$44
2013-14	\$276,011	\$3,451	\$3,379	-\$72
2014-15	\$285,672	\$3,470	\$3,428	-\$42
2015-16	\$295,670	\$3,574	\$3,513	-\$61
2016-17	\$306,019	\$3,618	\$3,552	-\$66
2017-18	\$316,729	\$3,750	\$3,690	-\$60
2018-19	\$327,815	\$3,832	\$3,783	-\$49
2019-20	\$339,288	\$3,982	\$3,921	-\$61

cal residential property will increase an average of 3.1% annually over the next 10 years.

On average, the owner of this average home would pay \$46 per year less in school taxes with the development compared to what he/she would pay without it (see table on page nine). The property tax differences are generally less than 2% and average 1.3% over the years studied.

The small difference in tax rate is not surprising. The additional students from the Bishops Bay development result in more spending and higher tax levies. However, there is also more property value over which that levy is distributed. Property owners in the new development also pay school taxes.

In addition, Wisconsin's equalization aid formula is designed so that districts with the same per student

spending have similar tax rates. In this case, it's not two districts, but two variants of the same district. The revenue limit formula altered slightly the district's per student spending, resulting in slightly different tax rates. If it hadn't, the tax impact would have been even smaller, and possibly nonexistent.

CONCLUSIONS

The Bishops Bay development could have several positive impacts on the finances of the Waunakee School District. Additional students would add total revenue to the district in the form of state equalization aids and property taxes. By 2020, the costs associated with the additional students would be about \$800,000 less than the additional revenue, allowing the district more flexibility with staffing or programming. Due to timing and formula issues in Wisconsin's school finance system, the development would likely lower the district's property tax rate by less than 2%. For the typical property taxpayer in the district, there would be a small reduction in school taxes.

ADDENDUM: NO REFERENDUM

WISTAX researchers performed the same analysis assuming the April referenda do not pass. The patterns shown in the preceding graphs are similar, they are just at slightly lower levels. For example, the difference in total revenue limit in 2020 would be \$2.7 million rather than the \$2.8 million discussed on page six. The difference in property taxes would be similar also, a reduction of less than 2%. The main difference would be the property tax level, which would be lower should the referenda not pass. This second analysis did not account for additional space needs resulting from the additional students. □

APPENDIX: ANNUAL ESTIMATES OF SCHOOL FINANCIAL DATA

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<u>Enrollment</u>											
Without B.B.*	3,559	3,666	3,748	3,841	3,992	4,072	4,232	4,337	4,460	4,530	4,634
With B.B.	3,559	3,666	3,748	3,948	4,111	4,202	4,379	4,504	4,646	4,737	4,863
<u>Equalized Values (\$ Millions)</u>											
Without B.B.	\$2,107.5	\$2,130.6	\$2,237.2	\$2,393.8	\$2,561.3	\$2,740.6	\$2,932.5	\$3,137.7	\$3,357.4	\$3,592.4	\$3,843.9
W B.B.	\$2,107.5	\$2,130.6	\$2,237.2	\$2,393.8	\$2,583.4	\$2,792.9	\$3,030.6	\$3,288.4	\$3,552.0	\$3,822.9	\$4,120.7
<u>Equalized Values Per Student (using Aid membership)</u>											
Without B.B.	\$596,427	\$576,246	\$567,357	\$582,710	\$608,466	\$626,416	\$656,949	\$676,385	\$706,326	\$734,954	\$774,217
With B.B.	\$596,427	\$576,246	\$567,357	\$582,710	\$591,794	\$613,383	\$648,817	\$675,654	\$712,796	\$746,341	\$787,872
<u>Total Revenue Limit (\$ Millions)</u>											
Without B.B.	\$35.37	\$37.28	\$39.60	\$42.42	\$44.79	\$47.24	\$50.08	\$52.84	\$55.90	\$58.70	\$61.62
With B.B.	\$35.37	\$37.28	\$39.60	\$42.82	\$45.66	\$48.65	\$51.69	\$54.69	\$58.04	\$61.16	\$64.42
<u>State Equalization Aid (\$ Millions)</u>											
Without B.B.	\$17.51	\$17.45	\$18.13	\$18.66	\$19.45	\$20.76	\$21.18	\$22.42	\$22.96	\$23.66	\$23.58
With B.B.	\$17.51	\$17.45	\$18.13	\$18.66	\$20.72	\$21.95	\$22.23	\$23.20	\$23.47	\$24.00	\$23.87
<u>School Property Tax Levies (\$ Millions)</u>											
Without B.B.	\$22.80	\$25.57	\$27.89	\$30.31	\$32.02	\$33.29	\$35.45	\$37.09	\$39.75	\$42.00	\$45.12
With B.B.	\$22.80	\$25.57	\$27.89	\$30.70	\$31.62	\$33.51	\$36.01	\$38.16	\$41.38	\$44.12	\$47.63
<u>School Tax Rates (per \$1,000 Equalized Property Value)</u>											
Without B.B., W	\$10.82	\$12.00	\$12.47	\$12.66	\$12.50	\$12.15	\$12.09	\$11.82	\$11.84	\$11.69	\$11.74
W B.B., W Ref.	\$10.82	\$12.00	\$12.47	\$12.83	\$12.24	\$12.00	\$11.88	\$11.61	\$11.65	\$11.54	\$11.56

*B.B. = Bishops Bay development