



MEMORANDUM

TO: Superintendents
Business Managers
Education Organizations

FROM: Tom Melcher, Director
Program Finance Division

DATE: August 11, 2003

RE: Clarification of Operating Referendum Cap Inflation Adjustment

In response to questions regarding the operating referendum cap inflation adjustment, and how it relates to referendum ballot questions, the following clarification is provided:

Laws 2003, First Special Session, Chapter 9, Article 1, Section 36, as amended by Laws 2003, First Special Session, Chapter 23, Section 14, changes the calculation of the operating referendum cap as follows:

- (1) For FY 2004, the standard referendum cap is increased from 18.2% to 18.6% of the basic general education formula (from \$837.38 to \$855.79 per resident marginal cost pupil unit), and the alternative referendum cap is increased from 116.2% to 117.7% of the district's referendum allowance for FY 1994, plus the district's FY 2003 referendum conversion allowance, minus \$415.
- (2) Beginning in FY 2005, the standard referendum cap is the greater of 18.6 percent of the current year formula allowance or the standard referendum cap for FY 2004 (\$855.79) increased by an inflation factor. Beginning in FY 2005, the alternative referendum cap equals the FY 2004 alternative cap increased by an inflation factor. (For this analysis, it was assumed that the formula allowance will remain at \$4,601, as in current law, and that the referendum cap will be calculated based on the inflation factor.)
- (3) For FY 2005 through FY 2008, the inflation factor for both the standard and alternative caps equals the ratio of the Consumer Price Index (CPI) for urban consumers for the current fiscal year to the comparable CPI for FY 2004. For FY 2005, the inflation adjustment ratio is currently estimated at 1.0161 (1.61% increase), which increases the estimated standard cap by \$13.78 to \$869.57 for

FY 2005. (This is slightly lower than the inflation rate of 2.05% estimated at the end of the legislative session). The actual inflation adjustment ratio will be finalized after the fiscal year is over, at the time of the final aid calculation.

- (4) For FY 2009 and later years, the standard referendum cap will continue to inflate using the same CPI-based formula, while inflation over the FY 2008 level for the alternative cap will be based on $\frac{1}{4}$ of the percentage increase in the basic general education formula over the FY 2008 level.
- (5) For a schedule of projected inflation ratios and estimated standard caps through FY 2014, based on CPI estimates provided by the Department of Finance, please see the attachment. These estimates are based on current law, assuming no increase in the formula allowance in future years.

The annual inflationary increase applies to the referendum cap and not to the referendum allowance approved on the referendum ballot. As in the past, the referendum ballot must propose a specific dollar amount per pupil unit, or a schedule of specific dollar amounts per pupil unit. There is no authority to include language on the referendum ballot specifying that a district's referendum allowance will increase annually by the amount of the increase in the referendum cap. Districts that would like to build future inflationary adjustments to the referendum cap into upcoming referendum ballots can do so in one of two ways:

- (1) *The district can propose a schedule of referendum allowances which gradually increases over the life of the referendum, based on the district's estimates of the difference between the district's existing referendum authority and the projected caps for each year.* For example, a district at the cap in FY 2004, (\$855.79), could specify a schedule calling for \$14 per pupil unit in FY 2005, \$31 per pupil unit in FY 2006, \$49 per pupil unit in FY 2007, and so forth. If the cap were to increase by more than the amount requested by the district on the ballot for any given year, the referendum allowance would be limited to the increase specified on the ballot. If the cap were to increase by less, the referendum allowance would be limited based on the cap. The ballot must also state the estimated referendum tax rate as a percent of referendum market value for the first year of the referendum, and for the first year that the allowance is at the maximum stated in the schedule. The notice to taxpayers must also include the amount of the increase in referendum tax rates and annual dollars for properties of various market values for both the first year of the referendum and for the first year the maximum allowance specified in the schedule is in effect.

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- (2) *The district can propose a specific dollar allowance per pupil unit that, combined with the district's existing referendum allowance, exceeds the current referendum cap.* For example, a district at the cap in FY 2004, (\$855.79), could request on the ballot an additional \$225 per pupil unit for 10 years. In the first year, (FY 2005), the estimated allowance after the cap would be \$869.57, (a \$13.78 increase). Assuming inflation as projected by the Department of Finance (1.6% – 2.9% per year), the actual increase would be roughly \$225 per pupil unit by the last year of a 10-year referendum, (FY 2014). If the cap were to increase by more than the \$225 requested by the district on the ballot, the referendum allowance would be limited to the increase specified on the ballot. If the cap were to increase by less, the referendum allowance would be limited based on the cap. Given referendum cap inflation, this approach creates an implicit schedule of increased referendum allowances, which will float depending on the rate of inflation. As such, districts using this approach must also state on the ballot the estimated referendum tax rate as a percent of referendum market value for the first year of the referendum, and for the first year that the allowance is at the amount stated on the ballot. The implicit schedule must not be included on the referendum ballot, unless the district chooses Option # 1 above, but should be explained to the community in other materials, to enable the public to understand that the district will not initially receive the full amount stated on the ballot due to the referendum cap. The notice to taxpayers must also include the amount of the increase in referendum tax rates and annual dollars for properties of various market values for both the first year of the referendum and the for first year the allowance specified on the ballot is projected to be in effect.

In calculating tax impacts for a future year under either option, the district should factor in referendum cap inflation using the attached table, as well as district estimates of growth in district referendum market values and changes in district pupil units, with the assistance of the district's financial advisors and/or Program Finance staff (e.g., Bob Porter, Colleen Leemon).

Please contact Tom Melcher at 651-582-8828, Bob Porter at 651-582-8851, or Colleen Leemon at 651-582-8566 if you have further questions.

Attachment

Referendum Cap Inflation Estimates,
FY 2005 - FY 2014

CPI - Urban Consumers
August 2003 Update

Source of CPI Data: DOF- John Peloquin

Fiscal Year	Annual Projected Inflation	Projected Inflation Ratio Std. Cap	Projected Std. Cap*	Std. Cap Increase over FY 2004*	Projected Inflation Ratio Alt. Cap**
2005	1.61%	1.0161	\$ 869.57	\$ 13.78	1.0161
2006	1.90%	1.0354	\$ 886.08	\$ 30.29	1.0354
2007	2.04%	1.0566	\$ 904.23	\$ 48.44	1.0566
2008	2.12%	1.0790	\$ 923.40	\$ 67.61	1.0790
2009	2.28%	1.1037	\$ 944.54	\$ 88.75	1.0790
2010	2.44%	1.1307	\$ 967.64	\$ 111.85	1.0790
2011	2.64%	1.1605	\$ 993.14	\$ 137.35	1.0790
2012	2.80%	1.1930	\$ 1,020.96	\$ 165.17	1.0790
2013	2.86%	1.2272	\$ 1,050.23	\$ 194.44	1.0790
2014***	2.86%	1.2622	\$ 1,080.18	\$ 224.39	1.0790

* Assumes no increase in the formula after FY 2004, as per current law. Standard cap would be higher if the formula allowance is increased by enough to make 18.6% of the formula allowance exceed the amounts shown.

** Assumes no increase in formula allowance after FY 2008 as per current law. Alternative cap would be increased by 1/4 of the percent increase in the formula allowance in FY 2009 and later.

*** DOF CPI data not available for 2014. Assumed the same rate of increase as for 2013.