



## The Need for Predictable, Sustainable and Equitable School Funding

On April 5, voters approved 55 of 71 school referendum questions (77 percent). Of the 34 operating referendums in which voters were asked to allow the district to exceed the revenue limit, 29 passed. The passage rate for non-recurring exceptions (those for a limited term of years) was 87 percent (20 of 23). For recurring exceptions (those for an indefinite period) it was 82 percent (9 of 11).

What's behind the high number of referendums and the high passage rates? In part, the answer is that boards and districts did a good job of communicating their needs to their communities. In part, the answer is that our state's funding system is making these sorts of referendums increasingly necessary.

When enrollment drops, a district's revenue limit — *i.e.*, its spending ability — goes down. While such decreases are often cushioned to some extent by adjustments to the revenue limit, for many districts with persistent declining enrollment, passing an operating referendum is the only way to avoid significant cuts in programs and staff. With no per-pupil adjustments to revenue limits this year or next, districts with declining enrollments may feel pressure to go to voters. Additionally, while non-recurring

referendums are easier to pass, they provide relief only for a limited time. If the relief expires before a new referendum can be approved, the district once again faces decisions about cutting staff and programs that led it to a referendum in the first place.

Achieving the sort of predictable and sustainable school funding that would make operating referendums less necessary is complicated.

Schools are expensive and largely funded by property taxes. Half the property taxes paid in Wisconsin go for schools — either K-12 or technical colleges.

Wisconsin school districts levied slightly more than \$4.85 billion in property taxes for 2015-16, or 2.1 percent more than in 2014-15.<sup>1</sup> While this increase, attributable in part to successful referendums, was the largest increase since 2011, it was less than half the 4.5 percent average annual increase from 1997-2011.

This change did not happen by accident. Holding the line on property taxes is a priority for the governor and GOP legislators who control the Legislature.

As the Wisconsin Taxpayers Alliance puts it:

*The main reason school tax increases have been slowing in*

*recent years is legislative action. After 1992-93, the state imposed revenue limits on districts. The “caps” tied a levy growth to enrollment, state general aid, and inflation (through a state-determined per-pupil increase).*

*However, since 2010, these increases have been below the inflation rate. In each of the past two years, districts were allowed \$75 per student more in revenues. In 2015-16, the state is allowing no increase in the limits. State general aid shared with school districts is also frozen at last year's level.*

Even though state aid is flat statewide, the amount an individual district receives can go up or down driven by factors in the aid formula.

A district's revenue limit changes only if: enrollment changes; the legislature allows an adjustment in the limits; or voters approve a referendum.

To be sure, the state can hold down property taxes by not adjusting revenue limits on a per-pupil basis; however, this chokes school budgets and leads to referendums. And, as last year's tax bills attest, it is not a guarantee that school taxes remain level in every district. Even though there was no per-pupil adjustment nearly two-

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thirds of school districts (275 of 424) increased their levy for 2015-16 due in part to the changeability of school aid payments and in part to adjustments allowed under revenue limits.

A surer way the state can hold down or reduce property taxes is by paying a greater share of school costs.

Under revenue limits, additional state aid reduces the amount of property taxes a district can collect. However, providing more state aid won't by itself increase the amount a district can spend unless a district's overall revenue limit increases for one of the reasons noted above. Further, to the extent revenue limits are allowed to adjust, more state money is required to hold down property taxes.

An illustration of how additional state aid can reduce property taxes is seen in technical college levies. Two years ago, with news of a possible state surplus, political leaders moved to "buy down" technical college levies by increasing their state aid by \$406 million and imposing revenue limits on technical college districts. The result was a nearly 50 percent drop in technical college levies and a 2 percent decrease in overall average levies statewide.

This shift from a largely local and property tax-based system of funding to one where state taxes contribute much of the funding also created an ongoing budget commitment for the state, which now must keep paying this \$406 million in aid each year to prevent technical college property taxes from going back up. This change became a more or less permanent feature of our state budget.

Because the \$4.85 billion levied by schools dwarfs the \$417 million levied by technical colleges, it is unlikely lawmakers will try to

dramatically reduce K-12 school levies in the same way but it illustrates how it can be done.

One likely reason lawmakers opted to "buy down" levies by increasing technical college aid rather than K-12 general (equalization) aid was that the price was a match for the size of the projected surplus. This "buy down" also produced a nearly uniform property tax reduction in all parts of the state.

Distributing state dollars through the equalization aid formula does not affect school districts uniformly, which has been a problem for political leaders seeking to reduce taxes for all constituents. The current school aid formula uses property value per pupil as the primary indicator of the ability of school district residents to pay taxes to support local school district expenditures. As such, there is an inverse relationship between equalization aid and property value. Districts with lower per-pupil property values receive a larger share of their costs through equalization aid than districts with higher per-pupil property values.

This variation in general aid payments may also explain why lawmakers in recent years appear to have favored increasing funding to schools through per-pupil aid, which provides the same per-pupil amount in every district. It also solves the problem of "zero-aid" districts under the equalization formula.

The key for those seeking predictable, sustainable and equitable school funding will be to build consensus, and building that consensus may hinge on creating a shared vision of what we want public education to be in our state. Having a vision and a goal in mind may make devising ways to reach that goal easier.

While it is encouraging that



Wisconsinites support school referendums at a high rate, funding school districts in this manner is not predictable, sustainable or equitable. Referendums do not pass in every district. This divides districts into "haves" who can pass referendums and "have-nots" who cannot. Our state has a constitutional obligation to provide students with a free public education in district schools that are "as nearly uniform as practicable." It is hard to see how the current referendum-heavy system works toward this guarantee. ■

<sup>1</sup> The \$4.85 billion figure reflects gross school levies, which were offset by roughly \$1 billion in school-related state property tax credits. Net school levies totaled about \$3.85 billion.