The Time for Revenue Limits Has Passed

In this post-Act 10 world, revenue controls are not necessary

Ed Hughes

There was a reasonable argument for revenue limits when they were first imposed more than 20 years ago. However, that justification was swept away with the collective bargaining rights eliminated under Act 10. Today, despite no danger of runaway school district spending, the current governor and state legislators have chosen to impose increasingly stringent revenue limits, handcuffing school districts' fiscal management of their schools.

School districts have responded by turning to referenda to exceed the revenue limits with increasing frequency and increasing urgency.

Where Revenue Limits Came From

Following the searing Hortonville teacher strike of 1974, Wisconsin adopted a mediation-arbitration law to resolve collective bargaining impasses between teachers unions and school districts. The unions generally made out better than local taxpayers under the new system. The school portion of local property tax levies increased an average of 7.6 percent per year between 1985 and 1993.

In 1993, Governor Tommy Thompson and the state Legislature adopted a strategy to address the surge in school property tax levies and side step the mediation-arbitration law.

***Editor's note:** This article is an opinion piece from a Wisconsin school board member. We thank him for taking the time to share his perspective. We invite school board members and administrators to join in the conversation and to share their vision for public education in Wisconsin. Contact* Wisconsin School News *editor Shelby Anderson at sanderson@wasb.org.*

They established the qualified economic offer, or QEO, enabling school districts to avoid arbitration if they offered their teachers a 3.8 percent increase in salary and benefits. To provide an incentive for school districts to rely on the QEO, the Legislature imposed revenue limits that set caps on annual increases in school district expenditures. To make the package more appealing, the state also agreed to pick up two-thirds of the cost of school funding. The changes became known as the three-legged stool of school finance.

The first leg of the stool gave way in 2003, when Governor Jim Doyle and the Legislature abandoned the two-thirds funding pledge. The second collapsed in 2009 with the repeal of the QEO. The last leg of the stool — revenue limits — remains with us today.

How Revenue Limits Became Unnecessary

2011 Wisconsin Act 10 reflected a different strategy for addressing perceived flaws in the mediation-arbitration process. Rather than adjust the statutory standards for resolving a collective bargaining impasse, the law simply eliminated collective bargaining for anything other than base wages. And, short of a referendum, increases in base wages cannot exceed inflation.

The upshot is that revenue limits no longer serve their original purpose. They were established as part of a strategy to prevent school districts and local taxpayers from getting hammered by adverse arbitration rulings arising from collective bargaining. That is no longer possible. Today, there are no outside forces driving up school district spending that revenue limits are necessary to contain.

The Revenue Limit Vise Is Tightened

Even as the problem that revenue limits were adopted to address has evaporated, the restraints they impose on all the state's school districts have become more binding. The Legislature has not let the obsolescence of revenue limits' original purpose dampen their enthusiasm for the policy.

From the start of revenue limits in 1993 through the middle of the Doyle administration, revenue limits increased every year by a per-pupil amount between $190 and $275. Roughly speaking, this translated into annual spending limit increases of 2-3 percent.

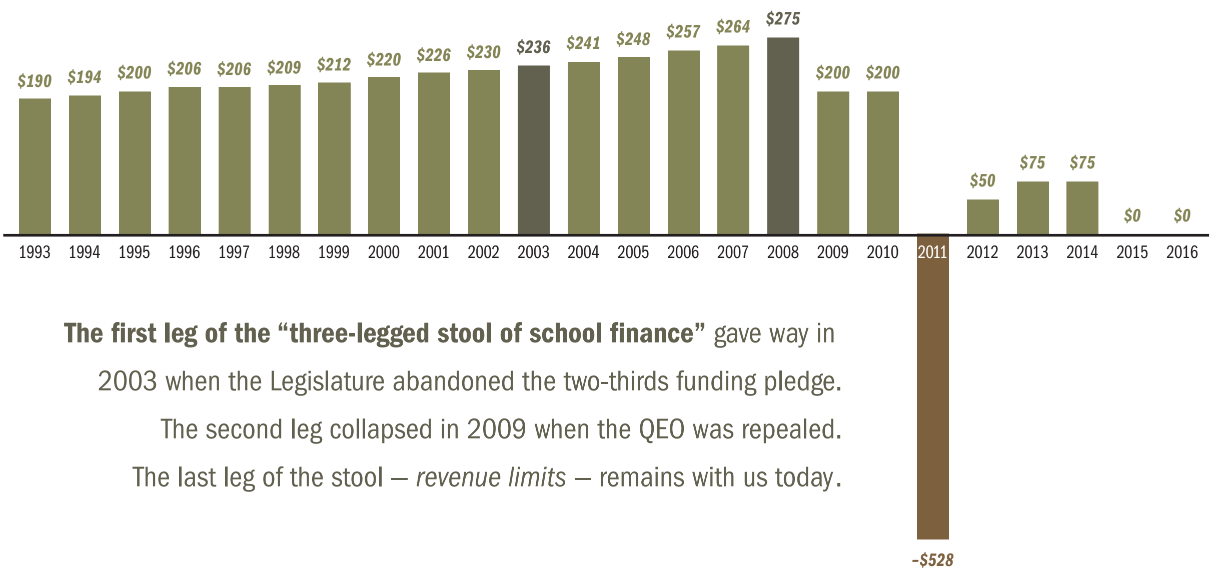
Current leadership has taken a different approach. Governor Walker's first biennial budget called for a revenue limit decrease of 5.5 percent per pupil, more than $550 per student, on average, for the first year, and a small $50 increase the second year. School districts were directed to manage the cut in their spending authority through the Act 10 "tools," which primarily entailed requiring employee contributions for retirement accounts and an increased sharing of health insurance costs.

In Walker's second budget, school district spending authority went up $75 the first year and an additional $75 the second year. This represented annual increases of less than one percent. In the most recent biennial budget, covering the 2015-16 and 2016-17 fiscal years, revenue limits are held constant — no increase at all.

In *Fig. 1* below, you can see how the annual changes in revenue limits have looked over the 24 years they have been in place.

When revenue limits were imposed in 1993, school districts started with a base of their then-current per-pupil

FIG. 1: Annual Change in Revenue Limits



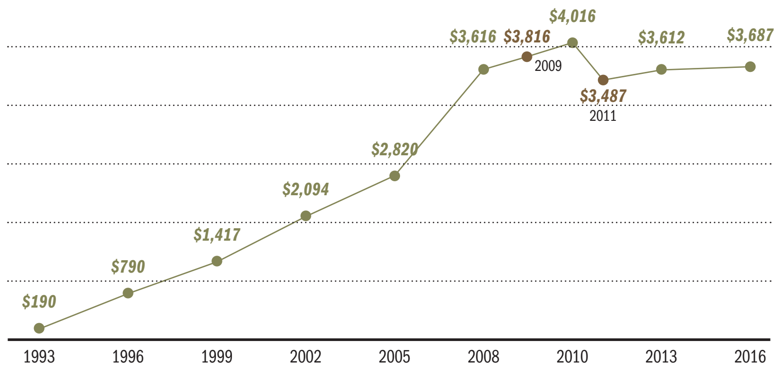
The first leg of the "three-legged stool of school finance" gave way in 2003 when the Legislature abandoned the two-thirds funding pledge. The second leg collapsed in 2009 when the QEO was repealed. The last leg of the stool – *revenue limits* – remains with us today.

spending. Over the years, increases in revenue limits have nudged up the amount of allowable spending. The chart (*Fig. 2*) shows, how much more school districts could spend per pupil than their 1993 base amount. As *Fig.* 2 indicates, after 18 years of steady growth in revenue limits, the state reversed course. Those limits are less today than they were in 2009.

The negative impact of the very tight limits of the last few years has been offset to some extent by increased categorical aid payments to school districts outside of revenue limits. These payments started out at $75 per pupil in 2013-14, increased by $75 to $150 per pupil in 2014-15, remain the same in 2015-16, and go up $100 to $250 per student in 2016-17.

Even considering the special categorical aid payments, school district spending cannot increase at all during 2015-16 and can go up only $100 per student in 2016-17, which hovers slightly below the one percent level for most districts.

FIG. 2: Cumulative Annual Change in Revenue Limits



Schools Are Not Immune to Increased Costs

School districts have been slashing their budgets in response to revenue limits for more than 20 years. Districts are forced to cut even more deeply than usual this year and next if they are to accommodate the rising costs they face without increasing their overall spending.

Schools are a labor-intensive operation. The costs of salaries and benefits make up 70 to 80 percent of an average school district budget. Like other workers, teachers reasonably expect that they'll see some bump in their pay over time if they continue to meet the expectations of the job. The cost of benefits, like health insurance, increase over time no matter what kind of a job teachers are doing.

Cost increases are not limited to salaries and benefits. Utility expenses rise each year as do other costs of operation. In Madison, we received a surprise this year when our property insurance costs soared from $212,000 to $449,500 as a direct result of a proposed biennial budget provision that would have ordered the shutdown of the Local Government Property Insurance Fund. Although the proposal was not part of the final bill, it had the effect of triggering policy premium increases and other structural changes by the Funds Advisory Committee.

While costs inevitably increase for a school district simply trying to maintain the status quo, budgets get even more challenging for districts that take seriously their obligation to attack achievement gaps and otherwise improve the quality of education they offer their students. Not all improvement strategies cost money, but most do. Revenue limits tie the hands of school districts interested in investing in innovative approaches to meet their students' needs.

Referenda Are a Symptom of the Problem, Not a Solution

The law provides a relief valve for school districts pinched by revenue limits. Districts can go to referendum to ask their voters to authorize their district to exceed their limits. School districts are scheduling referenda with increasing frequency.

Far from a panacea, referenda are an unavoidable burden for cash-strapped school districts. Our government does not operate by plebiscite. While voters deserve to have their voices heard at the annual meeting, we shouldn't require our school boards to win voter approval for their annual budgets any more than we should hold a statewide referendum every other year so that voters can weigh in on the state's biennial budget.

Budgeting by referenda also engenders uncertainty, complicates planning, and can be disastrous in those districts where referenda fail.

What's a School Board to Do?

Revenue limits trample on local control so that the governor and legislators can claim credit for barring school boards from raising additional property taxes to invest in their schools. But there is zero evidence that, in this post-Act 10 world, revenue controls are necessary to rein in excessive spending by school districts.

As restrictive and unnecessary as they are, revenue limits are not going to be repealed by the Legislature anytime soon. So long as the Legislature does not erect new referendum roadblocks, we can expect to see more and more school districts go to referendum year after year in order to win authority to spend the funds necessary to carry out their educational mission.

A more audacious strategy is available to school boards that are confident of the support of their communities. They could schedule a referendum to effectively eliminate revenue limits. This could be accomplished by winning voter approval for recurring authority to exceed revenue limits by some extremely large amount — say $100 million, $200 million, or more. (A strategy like this should be cleared with the district's legal counsel and DPI to ensure that the district is merely authorized, and not obligated, to exceed the revenue limit by the amount set forth in the referendum question.)

Passage of such a huge referendum would not obligate the school board to spend an additional dime. Since school districts can carry over unused spending authority from year to year, it would enable the board to cease worrying about revenue limits in future budgets.

With passage of a jumbo referendum, a community could reassert local control over its schools by liberating its school board to set budgets at levels that suit the community, free of the misguided restrictions that subordinate our schools and our students to a property-tax talking point for short-sighted politicians. ■

Ed Hughes is a school board member in the Madison Metropolitan School District. You can view more of his writing at edhughesschoolblob.wordpress.com.