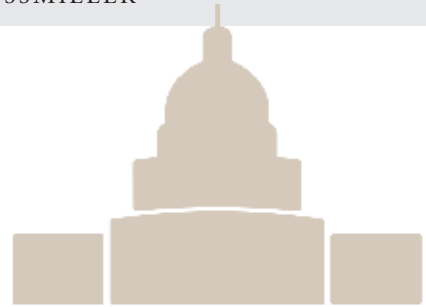


Looking Ahead

School budget outlook is set for 2014-15; Beyond that, the picture is unclear



At a time of year when many school boards are wrestling with budget issues, how many board members wouldn't wish for a crystal ball to help predict the future? It would be nice for school boards to have a way to see ahead farther as they plan (and budget) for the future.

As school boards develop their budgets for the 2014-15 school year, they have a number of markers to guide them. For example, revenue limits will be adjusted upward by \$75 per pupil in 2014-15 compared with 2013-14. In addition, the state will provide each school district with an additional \$75 per pupil in the form of "per pupil aid" in 2014-15. Further, boards with a levy for community service and program funds (*i.e.*, Fund 80) may not levy more for those services and programs in 2014-15 than they levied in the most recent year preceding 2013 in which the board levied for community programs and services.

For the short term, at least, boards have a fair amount of certainty. However, for boards seeking long-range budget guidance beyond the 2014-15 school year, there is precious little to go on.

The Legislature was silent on a

number of key issues. Current statutes, for example, provide for no increases in either revenue limits or "per pupil aid" beyond the 2014-15 school year.

Why is this silence a concern? By saying nothing, lawmakers and the governor created no expectation they will have to live up to. While it's true that a given two-year session of the legislature cannot legally bind the next legislature, what the lawmakers in a given session write in the statute books creates expectations that are hard for lawmakers in the next session to disregard. However when nothing is written in the statute book, there is nothing upon which school leaders can form an expectation.

The silence is also a concern given that Gov. Scott Walker has pledged that, if he is re-elected, property tax bills in December 2018 will be no higher than those in December 2014. One way to keep property tax bills low is to keep allowable revenue limit increases low. But that could force cuts that might irreparably harm many small, rural schools. An alternative is to allow revenue limits to grow slightly more but also increase state aid to "buy down" the levy.

That approach, however, requires

additional state spending to increase in proportion to the amount of the upward adjustment in revenue limits. A third and a fourth alternative is to remove a program from the property tax altogether or to provide a state credit to property owners on their property tax bills, both of which also require additional state spending.

School leaders may recall that when Gov. Walker introduced his original 2013-15 budget proposal, it called for no increase in revenue limits and only a modest increase in state aid. Clearly, that proposal aimed to keep property taxes low. (It was only later when tax collection numbers showed marked improvement that lawmakers and the governor found they had more money available, prompting them to increase school funding and cut income taxes at the same time.)

One way the governor and lawmakers found last session to actually reduce property taxes was to "buy down" technical college levies by increasing state aid to technical colleges by over \$400 million and imposing tighter levy limits on tech colleges. Essentially, state aid replaced property taxes as the source for tech college funding. Although lawmakers did this on a one-time

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basis and are not obligated to continue this funding, they have created an expectation of continued funding. They have also set up a situation where pulling back on state funding will almost assuredly result in a property tax increase.

One might rightly question whether the state can afford to continue this practice on an ongoing basis.

In late May, the nonpartisan Legislative Fiscal Bureau (LFB) released an analysis of how the spending increases and tax decreases approved by the 2013-14 Legislature will affect the state's budget balance in the next two-year budget cycle.

In particular, the LFB analysis projects that in the current 2014-15 fiscal year just underway, the state will spend about \$559 million more than it will take in. And while the LFB projects the state will finish the current 2013-15 budget with a positive gross balance of roughly \$165 million, the memo notes, "\$559 million becomes \$165 million (only) when the \$724 million opening balance is considered."

In other words, the state is spending down a projected surplus that may not continue into the future. The LFB memo projects that for 2015-16, the state's general fund will need additional revenue growth of \$226 million to meet commitments under current law, maintain the required statutory balance, and balance the budget for that year. In 2016-17, another \$416 million would be needed (\$190 million above the 2015-16 amount).

Those figures do not include the \$400 million or more per year needed to maintain technical college system (WTCS) funding and keep that levy at its current reduced level. As noted above, taking \$400 million per year out of WTCS funding would mean a property tax increase. Those figures

2015-17 State Budget Funding Concerns

- ▶ **Given the weakness in the national economy** in the first quarter of 2014, are state tax collections growing in line with LFB assumptions? Will state tax collections continue to grow in-line with those projections?
- ▶ **What impact will state tax cuts** approved in both the 2011-12 and 2013-14 legislative sessions (and that are still phasing in) have on revenues in the next (2015-17) budget?
 - ▶ **Are further tax cuts** on the horizon?
 - ▶ **Will the state continue to provide** \$400 million-plus in aid to the state technical college system?
 - ▶ **How will the state fix** the transportation budget?
 - ▶ **How much more state funding** will be needed for the state's voucher and independent charter programs?

also do not include any increases in K-12 funding or any expansion of private school vouchers. (It has been estimated the state will need an additional \$49 million just to fund increased costs of the Milwaukee and Racine voucher programs, in which enrollment is not capped.)

Wisconsin's Transportation Fund is facing a potential \$600-\$700 million shortfall in the next (2015-17) state budget. Historically, state transportation spending has been supplied almost entirely from a separate segregated fund, supported by fuel taxes and license plate and registration fees.

The long-range forecast for the Transportation Fund is even more troubling. A bipartisan commission reported last year that if Wisconsin wants to maintain current service, traffic flow and road condition levels under the existing funding system, the state will be short \$15.3 billion over the next decade. That's largely because more fuel-efficient vehicles, including hybrids and electric cars, are eroding state revenues from the gas tax, the largest source of state transportation funding.

The Legislature hasn't voted on an increase to the state's gas tax since

1997, and the state stopped automatic indexing of the gas tax for inflation in 2006. To address shortfalls that until now have been relatively minor, lawmakers have approved transfers into the Transportation Fund from the state's general fund, which comes from income and sales taxes (and also funds school aids).

In 2013-14, about \$61 million was transferred from the general purpose revenues (the state's general fund). In 2014-15, roughly \$140 million will be transferred. Will the Legislature approve additional, bigger transfers in the next budget or will it finally "bite the bullet" and vote to raise gas taxes?

Because this is an election year, school leaders should raise concerns about the lack of clarity in school funding with candidates for the legislature and gubernatorial candidates to make sure these concerns are "on their radar screens." If school leaders fail to do so, they may risk finding that with all the other competition for scarce budget resources in the 2015-17 cycle, the school budget picture will go from unclear to gloomy. ■

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