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Supplement 1

## **Background on Public School Finance in Wisconsin**

The Whitefish Bay School District advocates for a durable funding system for Wisconsin's public schools that is "comprehensive, predictable, spendable and sustainable."

*Comprehensive:* Public school funding should account for all of the costs of operating a school district.

*Predictable:* Operating a school district is nuanced and complex, and doing it well requires a predictable budget. Planning and investing to provide a good education – maintaining, renovating, and creating new spaces; acquiring new technology; updating teaching materials; training teachers – these are long-term investments that need stable budgets. Additionally, it's important to note that predictable funding also means predictable tax levies for local taxpayers.

*Spendable:* Because of how the Wisconsin public school funding system operates, the legislature can increase aid to schools in a way that does not provide more money for schools to spend. As the cost of providing a quality education increases over time, public school districts need room to increase their budgets if desired.

*Sustainable:* State funding for public schools should be based on stable revenue sources that can grow with inflation.

Over time, Wisconsin's funding system has evolved in a way that does not meet this goal; below is a brief overview of how the general funding system operates, and a walk-through of how it works in Whitefish Bay.

### **Overview**

In the State of Wisconsin, the legislature determines how much money each school district can spend each year to educate its students. This amount, calculated based on enrollment in the district, is called the "revenue limit." Annually, the legislature provides some percentage of this money to each district, funded by sales tax dollars, which is called "equalization aid." Equalization aid is also calculated based on enrollment. Once the legislature determines equalization aid each year, each district subtracts that aid from the revenue limit to determine local property taxes.

To summarize: Revenue limit (determined by the legislature) – equalization aid (provided by the legislature) = local property taxes levied by the District.

The legislature can raise and lower the revenue limit and equalization aid amounts. It's important to understand the difference between the revenue limit and equalization aid in Wisconsin, and how these affect the State budget and how they affect local property taxes.

If the legislature raises the revenue limit, each district can spend more money to educate its students. In effect, raising the revenue limit increases school budgets, and lowering the revenue limit decreases school budgets. *Raising or lowering the revenue limit, in and of itself, has no impact on the State's budget.*

Raising or lowering equalization aid, without a corresponding change in the revenue limit, does not have an effect on school budgets; it only affects the proportion of funding provided by the legislature and the proportion provided by local property taxes. Assuming no change in the revenue limit, increasing equalization aid increases the transfer of tax revenue from the State to local school districts (i.e. increases the cost to the State for public education) while lowering local property taxes, and lowering equalization aid decreases State transfers while increasing local property taxes.

The legislature can also change both the revenue limit and equalization aid, which will affect the district's budget, the cost to the State, and local property taxes.

There is another significant piece of funding that school districts get from the legislature - reimbursement for special education services; these funds offset a portion of the costs of providing special education services. Special education reimbursement is in a separate category from the revenue limit and equalization aid, and, since special education spending comes from a district's general budget, has the financial impact of increasing the amount of money a school district can spend on educating students.

Because district budgets are based on enrollment, enrollment changes are also a large factor in determining district-wide budgets. An increase in the revenue limit can be "offset" by lower enrollment; conversely, an increase in enrollment can increase the district budget even if the revenue limit is decreased.

## **The components more in-depth**

### **The revenue limit**

Beginning with the 1993 – 1994 school year, the State of Wisconsin established a per-student limit on what school districts can spend to educate their students – this limit is called the "revenue limit". Before 1993, School Districts voted each year to determine their annual budgets; the revenue limits established in 1993 reflected the budgets upon which each district had previously voted. The revenue limit for each district is different, and based on this historical baseline.

From its inception in 1993 until the passage of Act 10 in 2011, the revenue limit was adjusted each year to account for inflation, using the Consumer Price Index. School Districts could count on this annual increase and were able to budget and plan for the annual increases in the cost of providing education, including increases in the costs of utilities, salaries, benefits, and supplies.

Act 10 brought many changes. Because it provided school districts increased flexibility to negotiate salaries and benefits for staff, the revenue limit for schools was reduced by over 5%, anticipating that districts would use this negotiating power to establish more favorable salary and benefit packages with staff and administrators. Act 10 also brought an end to automatic, inflation-based adjustments to the revenue limit; without specific legislative action, the revenue limit remains the same every year. School districts cannot spend more than the revenue limit without passing a referendum for each year they would like to exceed the revenue limit.

Since Act 10 in 2011, the legislature has increased the revenue limit four times. In 2012, it was increased by 0.45%, and then in 2013, by 0.63%. After keeping the revenue limit the same from 2014 – 2018, the legislature increased the limit by 1.56% for the 2019-2020 school year, and by a further 1.57% for 2021-2021. This averages to an annual increase of 0.48%, and a total (compounded) increase of 3.85%.

For comparison, annual inflation over the same period has averaged 1.8%, a total increase of 13.64%.

This means that although school budgets have increased, they have not increased at the same rate as inflation; effectively, budgets have actually been reduced by about 10% since Act 10 was passed.

### **Equalization Aid**

Equalization aid has existed in Wisconsin for many years – it predates the revenue limit. The idea behind equalization aid is that the property tax rate levied by local public school districts will be equitable across Wisconsin, regardless of local property values or the local public school district budget. Note that although public education is a significant portion of local property taxes, these taxes fund much more than just public schools, so even if the tax rate levied by the local school district is the same, the overall tax rate varies between municipalities.

The formula used to calculate Equalization Aid is complex and can have unpredictable results. Aid does not scale linearly with enrollment, and can vary year to year, which contributes to the uncertainty as to how much equalization aid any certain school district might receive.

In the last biennial budget, state equalization aid was increased by 4.1% over the previous budget. The legislature also increased the revenue limit, although by a lower percentage than state equalization aid; this has had the effect of lowering local property taxes levied by public school districts.

### **Special Education Reimbursement**

The State has previously committed to reimbursing 30% of many costs of providing special education services, although it has not yet reached this target. Currently, for the 2020 – 2021 school year, the reimbursement amount is 28.21%, which is an improvement of the 25.02% for 2019 – 2020.

### **Federal Pandemic Aid (ESSER Grants)**

Whitefish Bay and other Wisconsin schools anticipate a significant increase in Federal aid related to reimbursement for Covid-19 related expenditures. This program, however, does not cover normal operating cost increases that would be covered by equalization aid, and currently is set to expire in two years.

### **The Whitefish Bay School District as an example**

Following is an example of how this system translates into the experience in the Whitefish Bay School District. The numbers are rounded, and based on average enrollment figures – this is meant as a generally accurate, illustrative example as opposed to a precise, detailed report.

### **Current revenue limit and breakdown of funding**

Whitefish Bay's revenue limit - the amount we can spend per student – is roughly the same in 2020 – 2021 as it was in 2010 before Act 10 was passed, \$11,400. We receive 30% of our annual budget from the state in equalization aid. The balance is raised via the district's local tax levy, which is \$8.38 per \$1,000 in property value. It is this tax rate, known as the “mill rate”, that equalization aid is designed to equalize across the state.

**Revenue limit since Act 10 was passed**

In the ten years since Act 10 was passed, the District's revenue limit – its annual budget – has increased by just under 4%. In 2020 - 2021, our revenue limit was \$480 higher per student than in 2011, a total of \$1,340,000 for the district-wide budget. During the same period, inflation has increased by almost 14%. If the revenue limit had kept pace with inflation, in 2020 – 2021 Whitefish Bay would have had \$1740 more to spend per student; a total of \$4,870,000. Because costs have increased at a greater rate than the revenue limit, the District has effectively lost \$1260 of spending power per student in 2020 – 2021 compared to 2011, or an overall net negative budget impact of \$3,500,000 in real dollar terms. That is a snapshot of the 2020 – 2021 school year; the gap has grown every year since Act 10 was passed, so it was smaller in previous years, and the gap will continue to grow in future years, absent any changes to the revenue limit (or negative inflation).

Every school district budgets differently, and the impact of this spending power reduction in budgets has differed across public school districts accordingly. In Whitefish Bay, we moved quickly and thoughtfully after Act 10 and the associated reduction in the revenue limit was passed to restructure compensation and benefits in order to meet the reduced revenue limit. Because public education is a service, these costs comprise the largest component of our budget, and making these changes allowed us to operate within the revenue limit.

As our budget continues to decline in real terms each year, we adjust what costs we can to keep our operating costs within the revenue limit – to keep it sustainable. Whitefish Bay has made steady reductions in energy usage in the past ten years. We have also had to increase student fees during this period. We have not yet had to dramatically cut programs, and we will avoid doing so as long as possible. However, it is increasingly challenging to recruit and retain high-quality teachers, and we anticipate that this trend will continue as our budget continues to erode in real dollar terms. Health care and other costs increase, technology needs evolve, and our buildings age, but our budget does not keep pace.

Some districts have had to make more dramatic programming changes – reducing or cutting certain programs – but Whitefish Bay is not yet one of them.

The revenue limit is the only predictable determinant of school budgets. Keeping operating costs within the revenue limit is the only sustainable way of operating the district. Certainly, some districts have passed referendums that allow them to exceed the revenue limit by raising local taxes – some districts use these funds for investments such as new buildings; others use them for operating costs such as salaries and benefits.

Relying on referendum funds for operating costs is not sustainable; if the referendum fails to pass, the effect on the district's budget can be dramatic.

However the funds are used, the results of referendums are not predictable; they are not guaranteed to pass. Depending on the demographics within a district, passing a referendum can be challenging; preparing and managing the referendums takes time and effort away from a district's primary mission to educate students.

**Impact of short-term, pandemic-related enrollment changes**

Because our enrollment will go down by about 4% next year – due to a combination of local demographic changes and pandemic-driven family choices – the School District of Whitefish Bay will need to reduce its annual budget by \$245,000 over the next few years, even if our enrollment returns to previous levels. If it does not, then our budget will be further reduced.

### **Unpredictability of equalization aid**

Counterintuitively, because of how equalization aid gets calculated, our per student equalization aid amount will go down disproportionately. Although school equalization aid amounts are currently unknown for the biennial 2021 – 2023 Wisconsin budget, based on historical calculations, the District estimates that despite our annual budget reduction of \$245,000, equalization aid will be reduced by \$1,760,000. The effect of that reduction will be that our community's local property tax levy will increase by 7.65% (to a mill rate of 9.02).

### **Special Education**

This year (2020-21) the District will transfer \$3,811,772 from its general fund to support the additional cost associated with providing special education services for students, consistent with student needs, and State and Federal mandates. Not all of this qualifies for special aid reimbursement by the State (only certain costs qualify), but we anticipate a reimbursement of about \$950,000.