

School Finance in Wisconsin

Where we are now | How we got here | What is ahead

2023 WISCONSIN STATE EDUCATION CONVENTION

JANUARY 18, 2023

**Questions to
address in
today's session**

**How do state policies shape local school
finance today?**

Where we are | How we got here | What is ahead

What does this mean for local districts?

Budgeting for inflation, pandemic recovery
before state budget is passed

What does K-12 public education need?

Unifying around a common message heading
into 2023-25 budget season



How do state policies shape local school finance today

- Where we are
- How we got here
- What is ahead

Where we are now

Frozen revenue caps and ESSER
“pandemic aid”

Per pupil revenues lag behind inflationary
change

Drop in Wisconsin K-12 spending
rankings nationwide

Drop in share of GPR →

Historic tax relief at expense of schools

Frozen revenue caps and ESSER “pandemic aid”



\$2.6B in federal pandemic relief for Wisconsin schools was **intended for unique pandemic-related needs and academic recovery.**

Republican-led legislature **plugged** it into 21-23 state budget **to keep revenue caps flat** for two years.

“...with the unprecedented surplus [Joint Finance Committee] had, they could have taken care of a lot of issues that they basically chose not to...**without that revenue limit, it really does handcuff a lot of our districts.**”

– Kim Kaukl, Wisconsin Rural Schools Alliance

Frozen revenue caps and ESSER “pandemic aid”

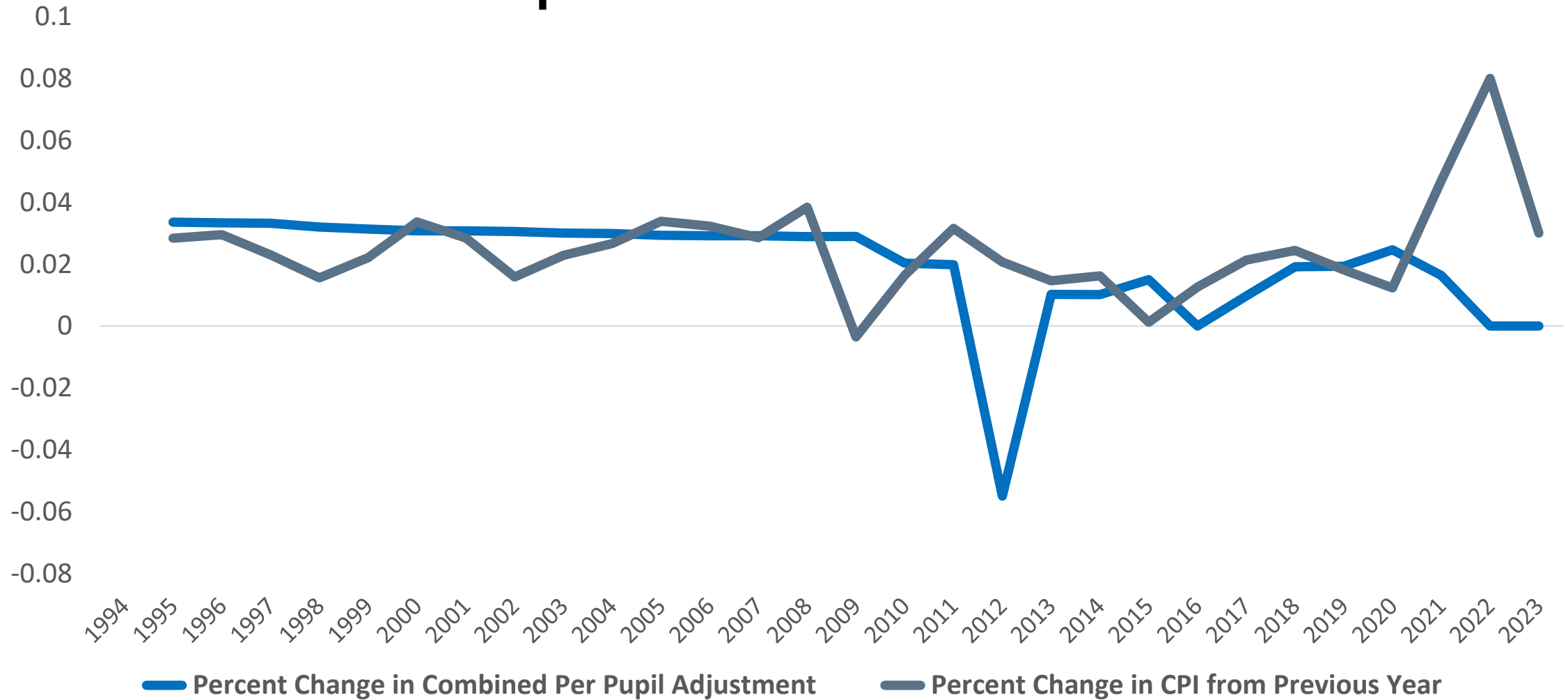
ESSER aid runs out in 2023. Many districts have already expended it on pandemic disruption and academic recovery.

With historic inflation and frozen revenue limits, many districts have been forced to use pandemic aid to cope with ongoing operating costs.

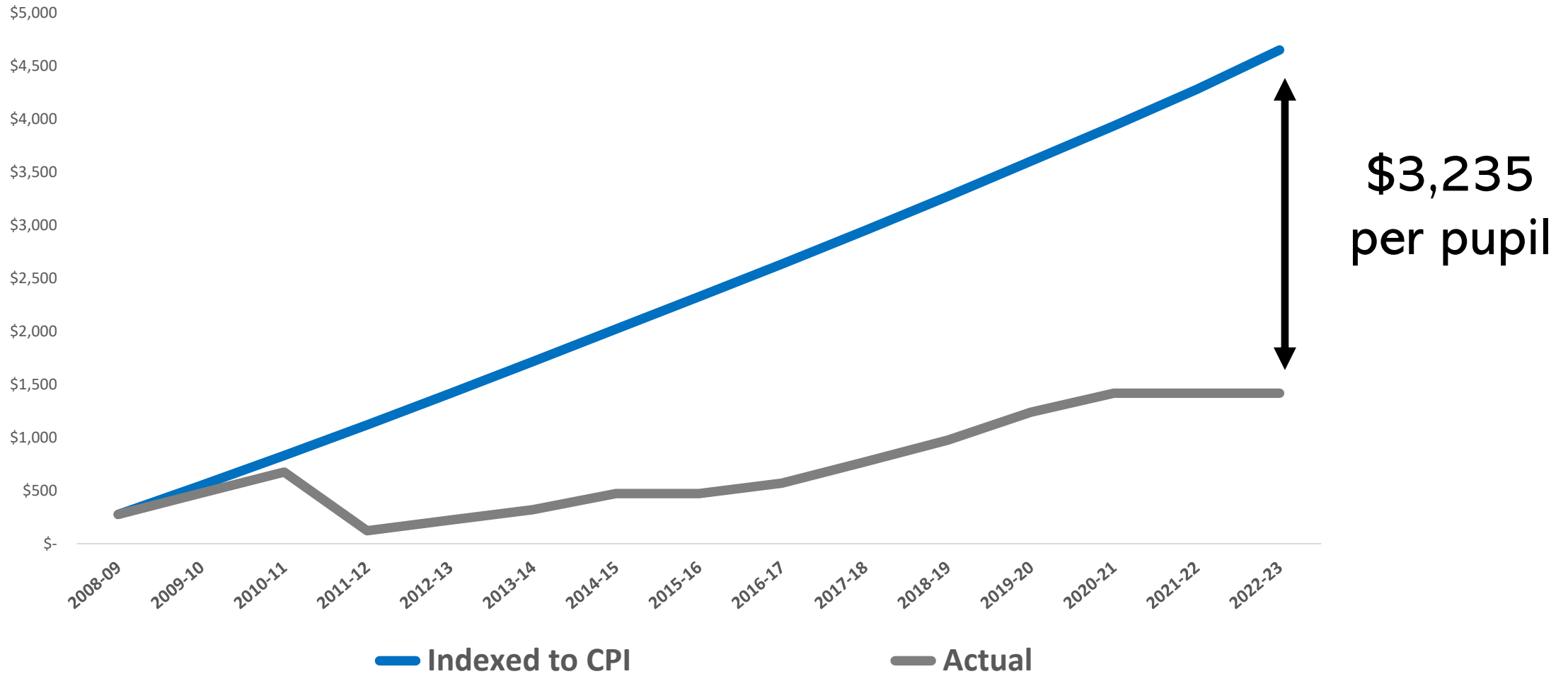
Result: Budget holes and fiscal cliffs



Year-to-year % changes in per pupil revenues have lost pace to inflation since 2009-10



Cumulative view: Per pupil revenues lag inflation by more than \$3,200 since 2009



Where would school districts be had funding remained tied to inflation?

Cumulative differences between CPI and actual per pupil adjustments:

Various timeframes:

2021-22 to 2024-25: **\$1,511** → "Catch-up" from 2021-23 freeze to 2025

2012-13 to 2024-25: **\$3,032** → Year after 5.5% revenue limit cut to 2025

2009-10 to 2022-23: **\$3,235** → Since revenue limits were decoupled from CPI

2009-10 to 2024-25: **\$4,031** → Same as above (includes 23-25 LFB projections)

What would adjustments like this mean for your district?

Could you have avoided going to or considering going to referendum?

Where would your property tax levy be today?

What improvements could you be making in your programs or infrastructure?

How would compensation be affected? How would that affect your ability to attract and retain staff?



Result of inflationary lag: Drop in per pupil spending ranking

#11 in 2002 – **11% above** national average

Largest drop in rankings of any state –
and that was *before* 2021-23 funding freeze

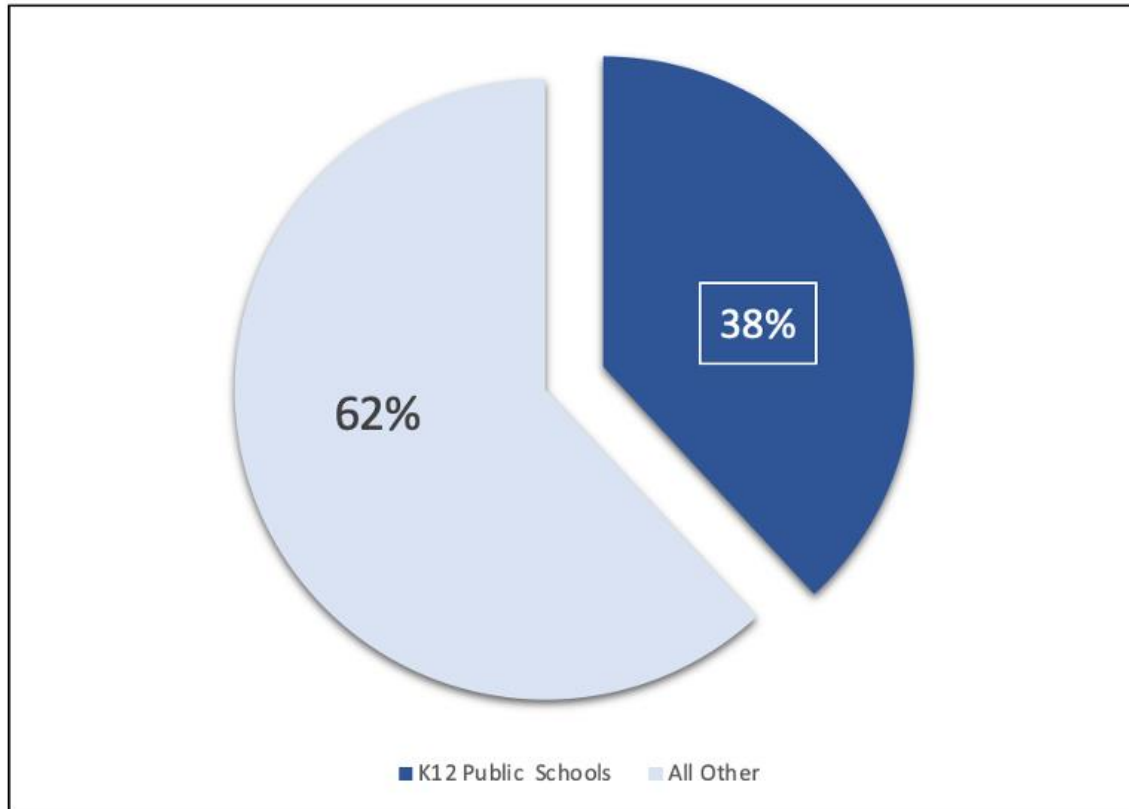
#25 in 2020 – **5.6% below** national average



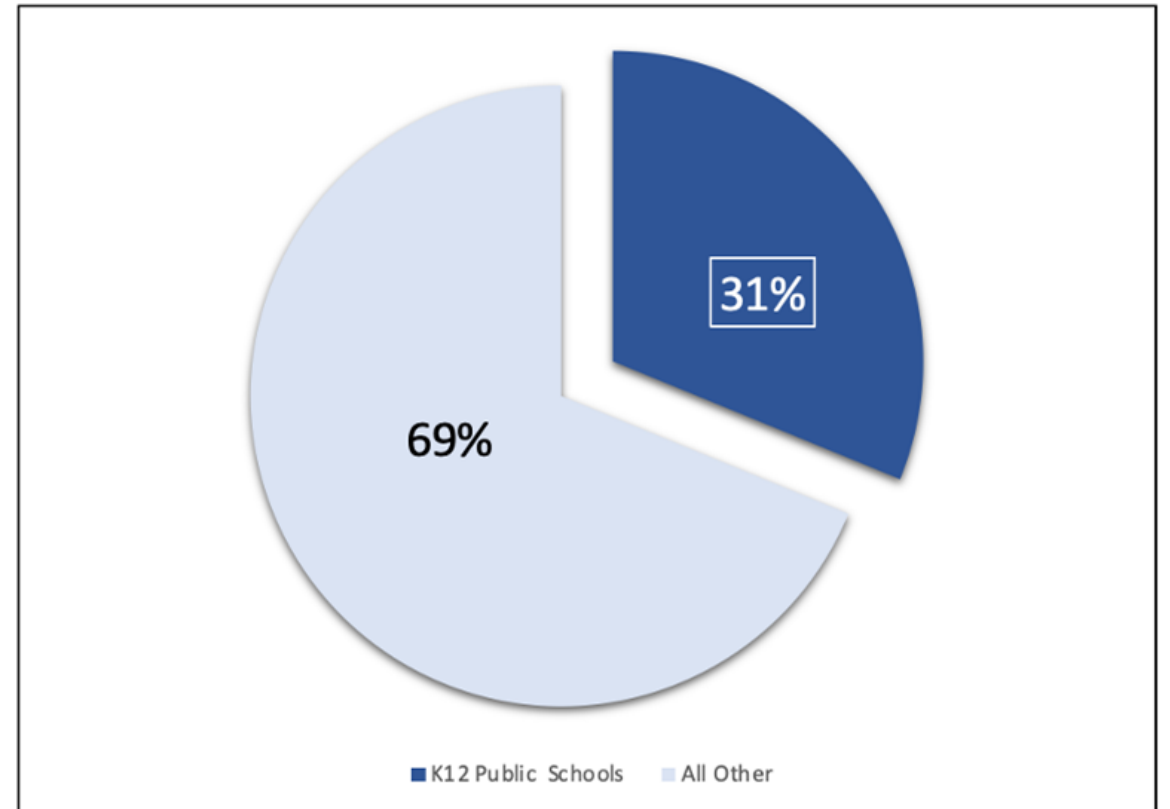
Share of state GPR for K-12 public schools

2011 to 2021

2011 = 38% to Public Schools



2021 = 31% to Public Schools



Result: Historic tax relief (at expense of schools)

“...[F]ederal data confirm the **remarkable decrease** in Wisconsin’s state and local tax burden over the past two decades, which has **exceeded that of almost all other states.**”

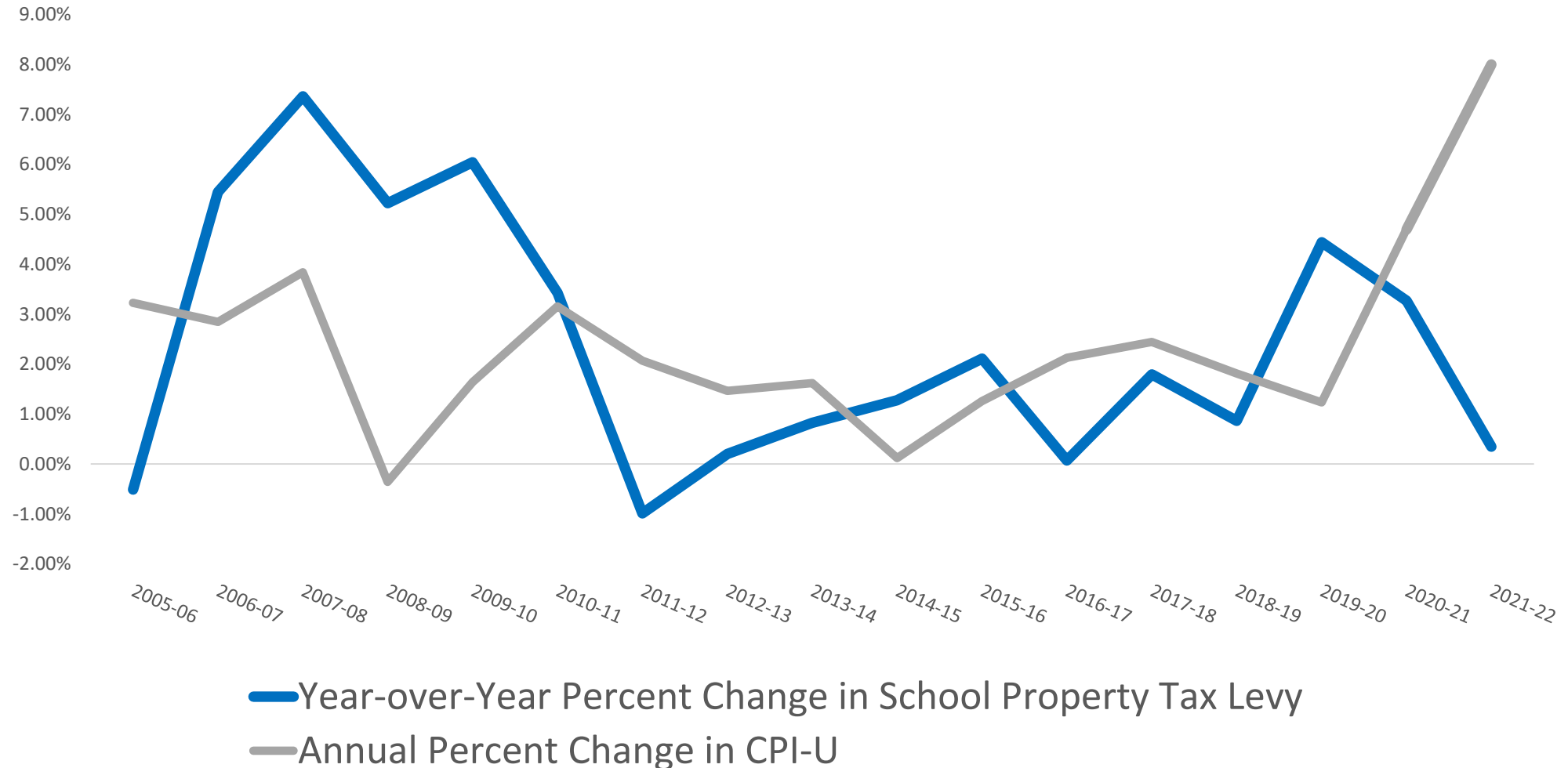
Wisconsin Policy Forum Nov 2021

“...Wisconsin’s **state and local tax burden fell in 2022 to its lowest level on record.** Local taxes as a share of income have never been lower in more than a half century of data...”

Wisconsin Policy Forum Jan 2022



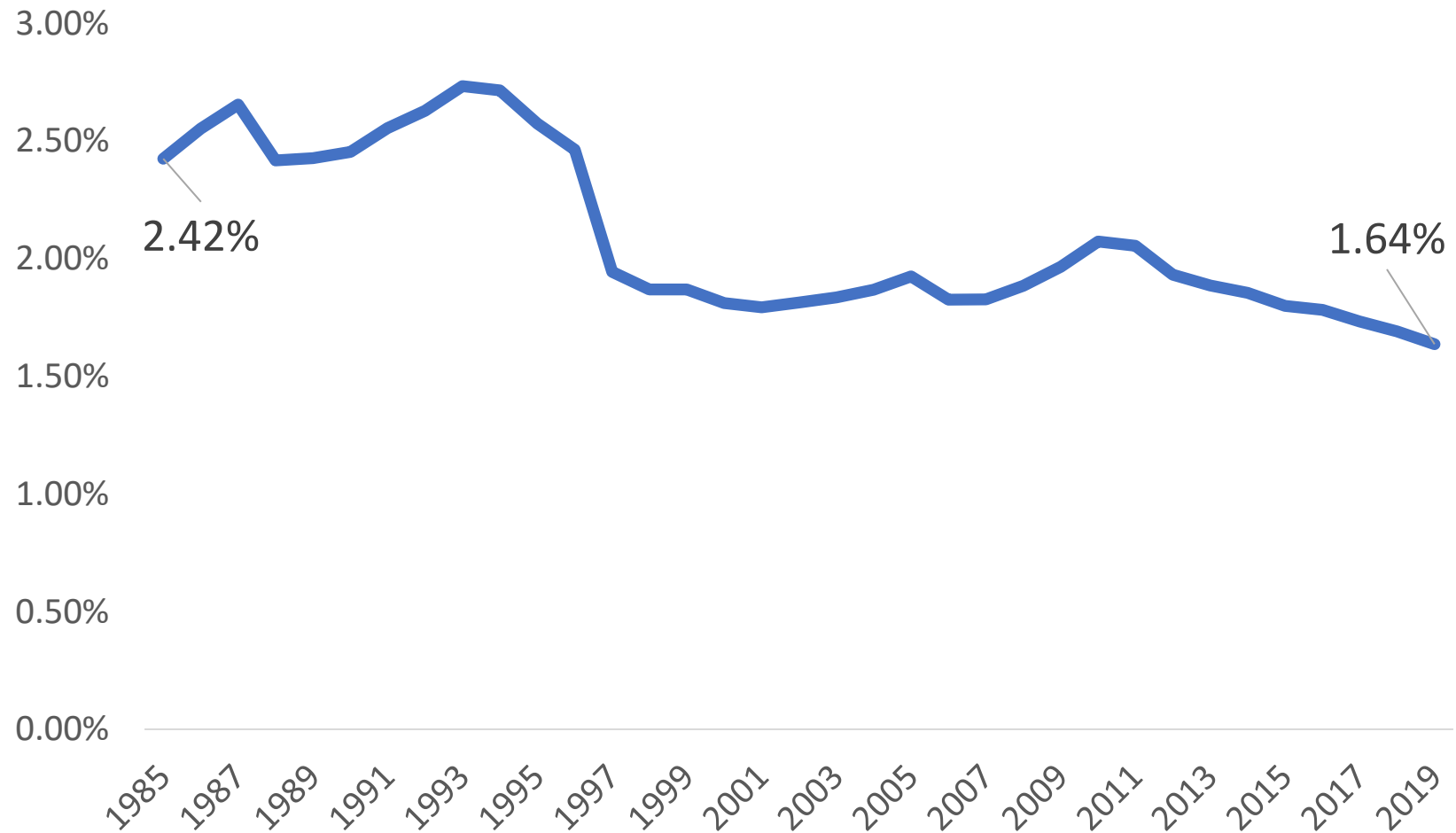
Annual percent change in **school property tax**: Tracks close to or below inflation in recent years



Source: [Wisconsin School District Tax Levies 2005-6 to 2021-22](#). Department of Public Instruction

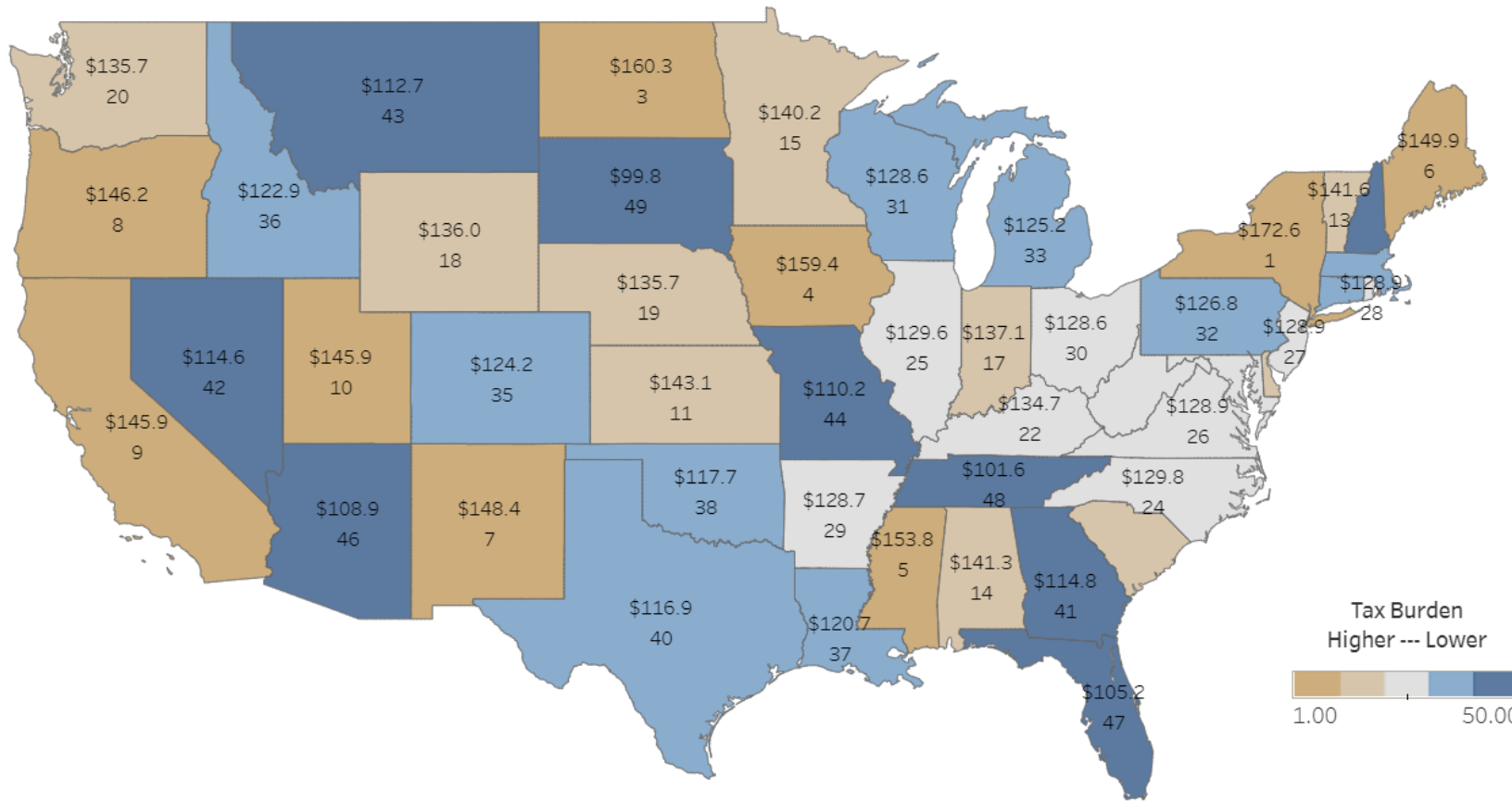
Source: [Historical Consumer Price Index for All Urban Consumers \(CPI-U\) \(December 2022\) 2005-6 to 2021-22](#). U.S. Bureau of Labor Statistics

School property tax levy as % of personal income (tax burden)



Wisconsin's state and local **tax burden** is among lowest in region

State and local revenues per \$1,000 of personal income: **Taxes and fees** in 2019-20



Michigan: \$125.2

**Wisconsin: \$128.6 –
National Rank: 31**

Illinois: \$129.6

Minnesota: \$140.2

Iowa: \$159.4

How we got here

Declining enrollment

Rising costs: Inflationary/Pandemic
pressure on school budgets

Rising costs: Pandemic student need

Rise in school referenda

Declining Enrollment



Enrollment: Declining and becoming more concentrated

Declining birth rate – leading to declining share of school-age children

Under state per-pupil funding model, school districts do not shrink well

More competition for fewer students: Impact of expansion of vouchers/charters on all school districts



By a show of raised hands:

How many of your districts are in declining enrollment?

How many of your districts have 1,000 students or less?

Enrollment: Declining and concentrated

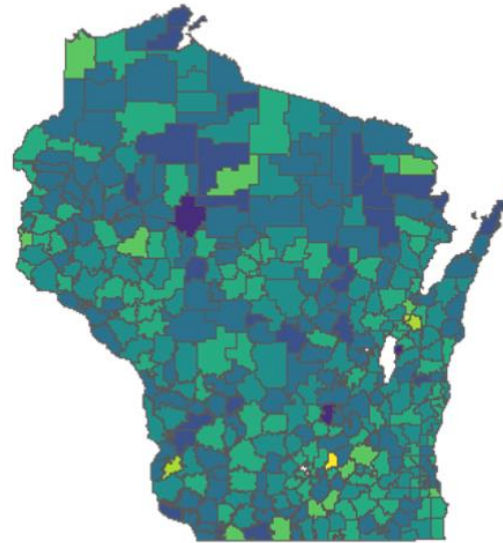
Almost **three quarters** of districts are in declining enrollment (compared to 59% in 2007)

Students are concentrated: 75% of students are located in just 30% of districts.

More than half of our students attend districts with fewer than **1,000** students.

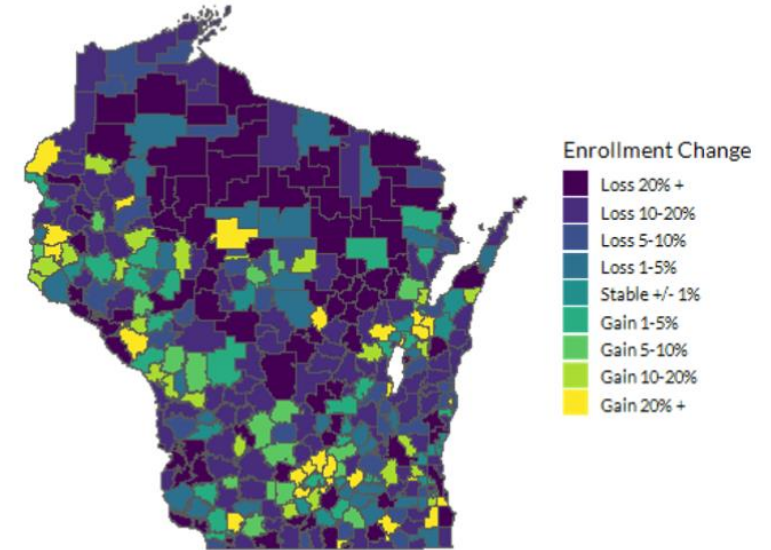
2006-07

Percentage Change in Enrollment from 2005-06 Base
School Year 2006-07



2021-22

Percentage Change in Enrollment from 2005-06 Base
School Year 2021-22



Under per-pupil funding model, school districts do not shrink well

Impact of declining enrollment:

ACUTE for smaller districts

At first glance – funding by student count makes sense
– as districts grow, expenses grow, funding follows

Reality in declining enrollment world - costs do not fall in step with enrollment declines

Fixed costs do not go down: Facilities, utilities, curriculum...

Even “variable costs” do not follow enrollment – difficult to cut teachers, staff, number of classrooms...

Rising Costs:

Inflationary/Pandemic pressure on school budgets

CPI 2022: 4.7%

CPI 2023: 8.0% *(est. based on WERC calc)*

Labor: Competition for instructional and support staff – teachers, bus contracts, driver wages...

Operations: Ordinary expenses – fuel, food, supplies...

Capital: Rapid increase in construction, capital maintenance, cost to borrow funds

Programming: Pandemic-related student needs (academic, mental health, special ed...)



Rising costs: Pandemic student need



Youth mental health on decline pre-pandemic

Pandemic exacerbated, added stress to families

Untreated mental illness interferes with development and learning

State support for mental health – grant funded, uneven, below need

Rising costs: Pandemic student need



“Budgets are tight. What are we trying to emphasize? If you don’t address the issue of their physical health, and their mental health, your ability to teach them is compromised.”

– Paul Thome, President
Hortonville Area Board of Education

Rising costs: Pandemic student need

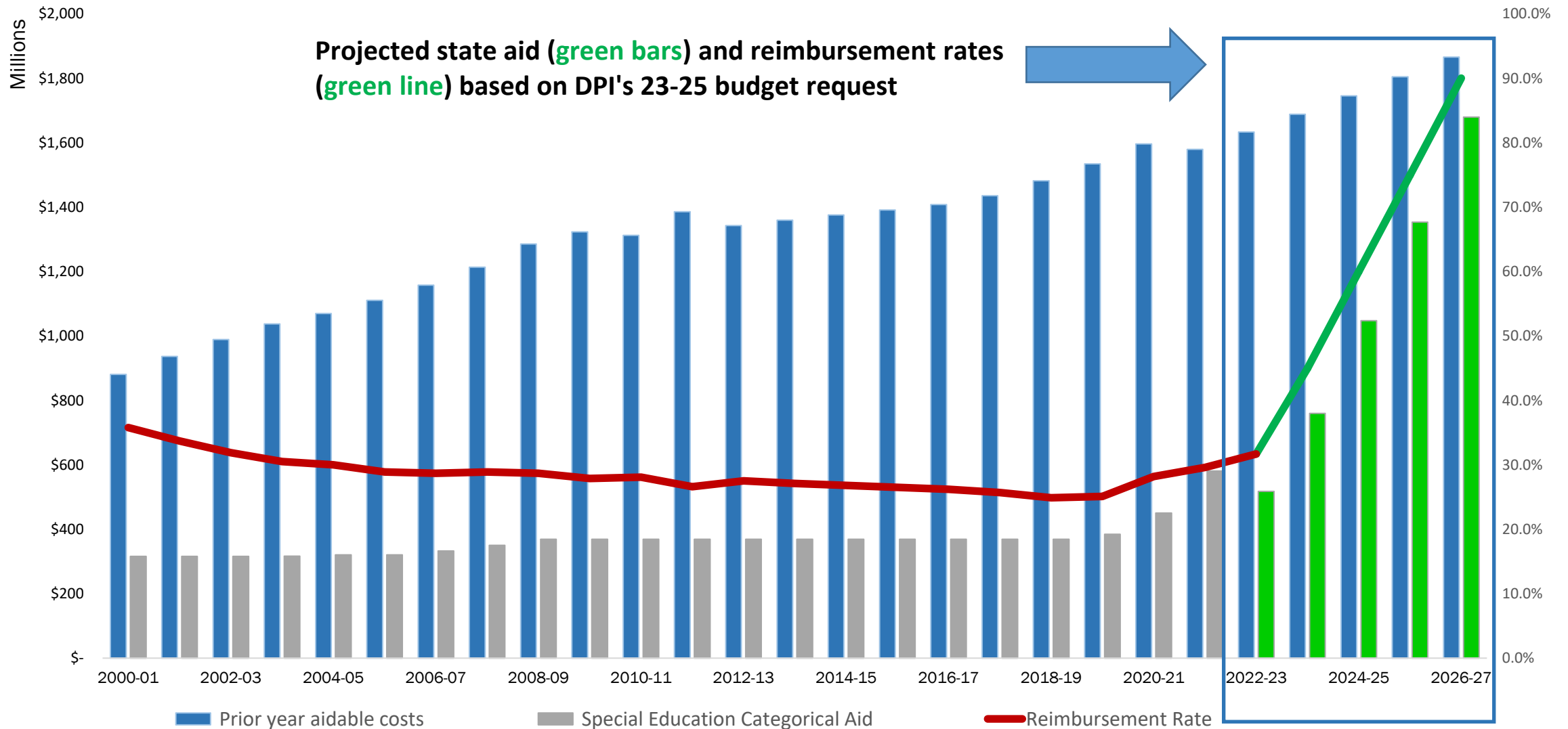
Special education



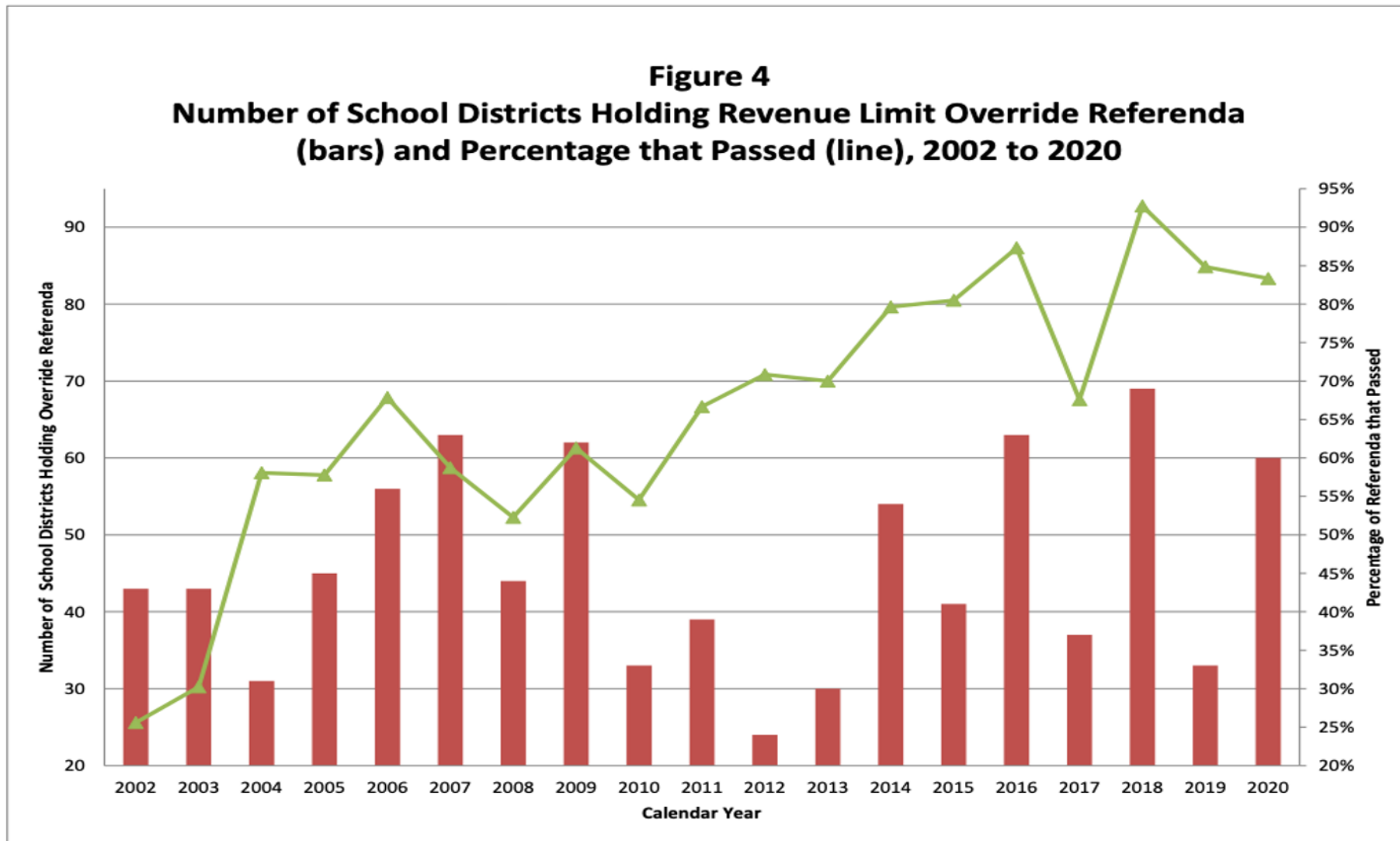
State aid on special education **had been flat for a decade** until modest increases began in 2019-20

Current reimbursement levels for special education **covers less than one-third** of costs

State Reimbursement Rate for Special Education Well Below Costs



Rise in school referenda

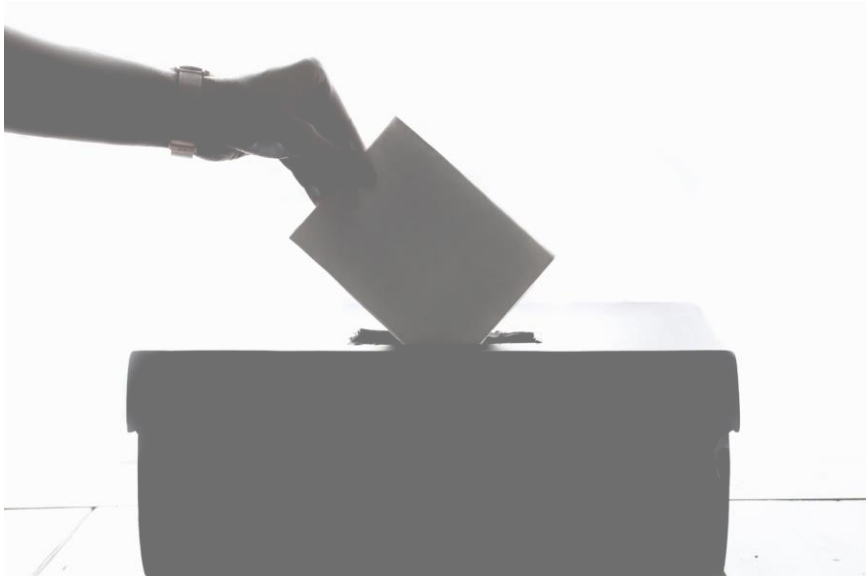


Most recently in
2022:

Highest
number of
operating
referenda since
2000

Referendum Use: Uneven statewide

Could deepen inequities between districts



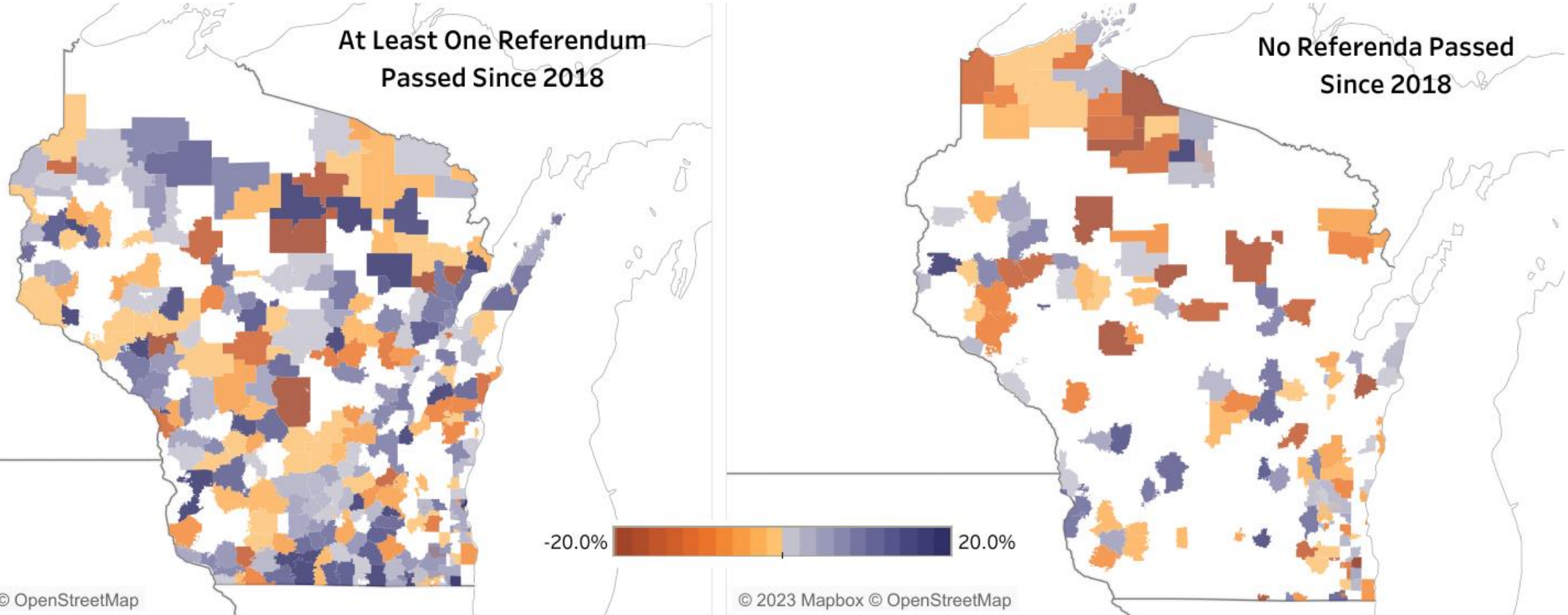
Between 2002 and 2022:

112 school districts had not held a single override referendum in the years 2002-2022

Another 87 held only one referendum during this period

Referendum Use: Uneven statewide

Change in property tax levy from 2021-22 to 2022-23
based on referendum passage



Source: Wisconsin Department of Revenue

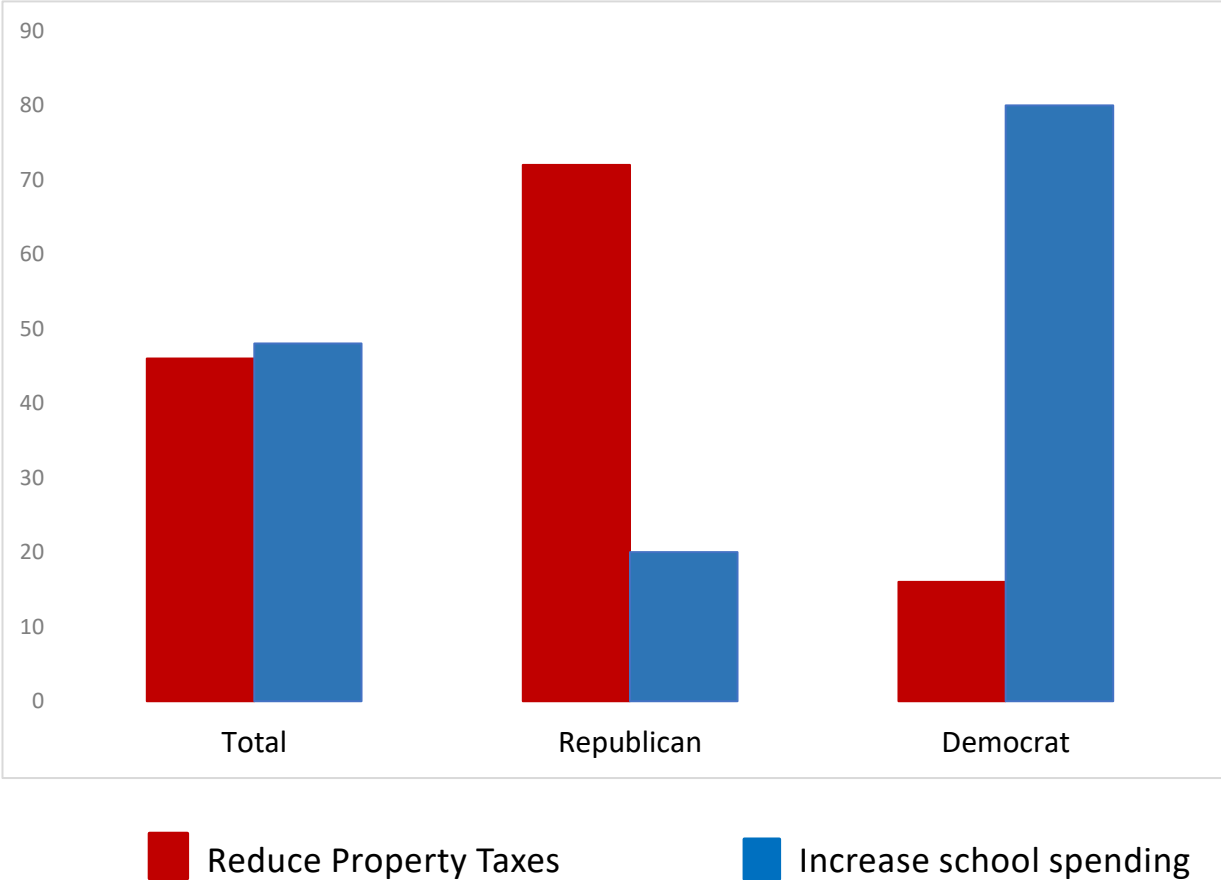
Source: [K-12 property taxes rise modestly despite state-imposed limits](#) (December 2022) Wisconsin Policy Forum

Marquette University Law School Poll

October 24 – November 1, 2022

Which is more important to you?

Reduce property taxes
or
Increase spending on public schools



“...for most rural school districts [in] declining enrollment, we have less and less because everyone functions under revenue limits...We had to go to referendum...otherwise, we start eliminating programs...for our students...if we don't receive this funding...We'll be heading toward insolvency...”

Tom Wermuth

District Administrator, Adams-Friendship School District



Show of hands...

How many here have held a levy override in last four years?

Raise your hand if your school board is considering levy override in next couple years?

How many think your community would never pass a levy override in your district?

What is ahead

After November 2022 Election:

Focus shifts to K-12 share state budget

Fiscal cliff

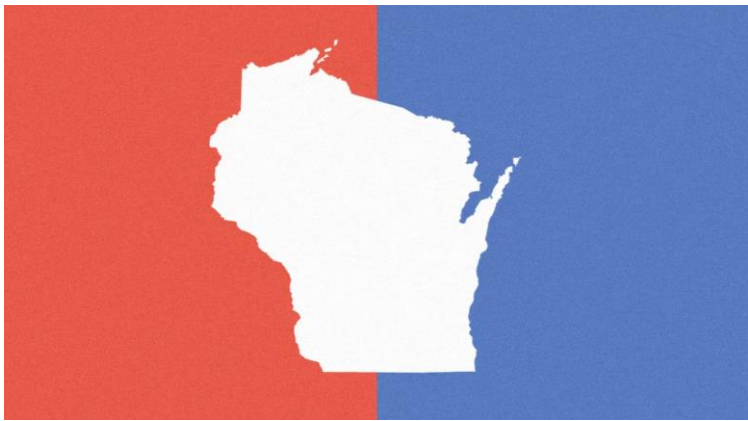
Historic inflationary costs after pandemic and two-year funding freeze

Competition for state dollars:

Voucher/charter expansion | Tax cuts

Historic state surplus: How will it be spent?

After November 2022 Election: Advocacy shifts to K-12 share of state budget



Governor's race: Evers' win means divided government and no supermajority in Assembly that can override governor's veto.

School referenda – Almost 80% passed (64). 2022 - Record number of operating referenda passed (74). Majority of districts (340) did not run a referendum.

Potential threats to K-12 funding in 2023-25 state budget:

- Education is not only area facing a fiscal cliff
- “Transformational” tax law changes
- Voucher/charter expansion

What is the Fiscal Cliff?

Federal pandemic aid was distributed based on student poverty – uneven impact on districts

ESSER III expires Sept 2024 - midway through next state budget

Districts need two-year funding freeze/ESSER gap filled AND inflationary adjustments

Many districts have added staff to support pandemic student need – seeing progress – need funding to continue



"We attempted to resist the pressure to use one-time funding for ongoing expenses because of the great cliff that it would build...We shouldn't have had to choose between reducing opportunities for children and making a fiscal cliff."

Blaise Paul

Chief Business and Finance Officer, Oak Creek-Franklin Joint School District

Competition for state budget \$: Voucher/charter expansion & Flat tax



New coalition of parental choice advocates PLUS largest business association in state (WMC) formed to advocate for voucher/charter expansion in the current legislative session.

GOP legislative leaders have signaled interest in eliminating or raising income limits.

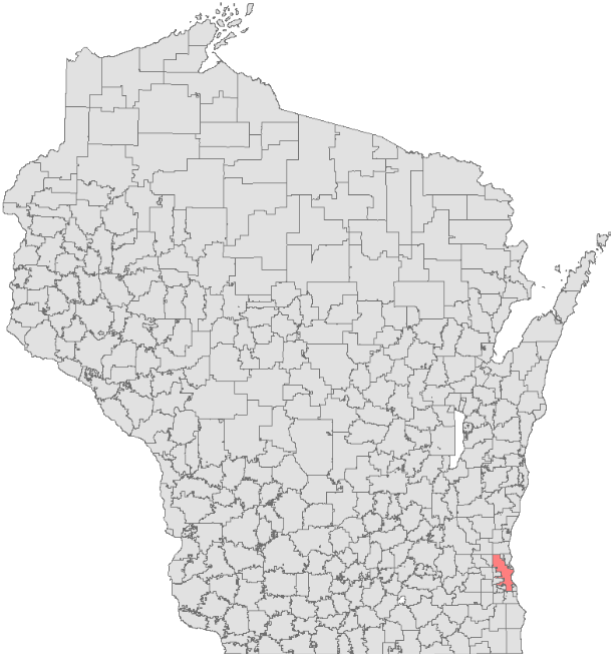
2026-27: End of cap on number of participating students in WPCP (not income limits) – Already in state law

GOP legislative leaders have signaled interest in eliminating or raising income limits.

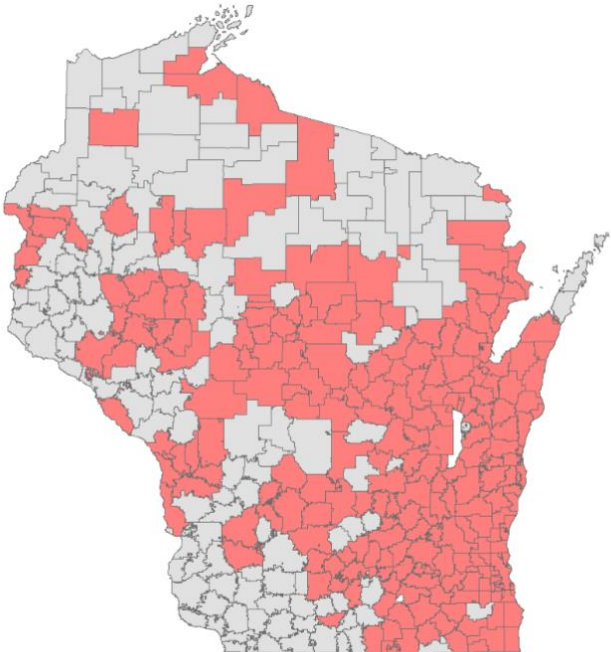
Choice program expansion

2012-13 to 2018-19

2012-13



2018-19



Potential impact of statewide voucher expansion

Local districts

Aid is reduced by cost of vouchers: Fiscal impact depends on mix of districts' state aid (equalization vs. categorical)

Districts can levy local taxpayers to offset **some** aid cuts

Essentially, private school **vouchers are paid for statewide by local property taxpayers (not the state).**

Potential impact of statewide voucher expansion

Statewide

Aid cuts at local level **shrink the size of the pie**: Amount of equalization aid available to all districts goes down.

Voucher students are counted for resident district's state aid the following year. **Reduces state aid and relative membership for all other districts.**

Multiple expansion avenues: Eliminating enrollment caps, raising income limits, increasing per-pupil payments.

Public school districts have distinct mandates and purposes

Key requirements for different types of K-12 schools ->

Beware of apples-to-oranges per-pupil payment comparisons between school types

	Public districts	Charter	Private Non-voucher	Private Voucher
Special education: Own students	✓	✓		
Special education: Private school students	✓ Limited			
Transportation: Own students	✓			
Transportation: Private school students	✓			
DPI Teacher licensure	✓	✓		
Enroll any student in district	✓			✓ Within school capacity
State assessments	✓	✓		✓ Limited
Establish technical prep program	✓			

Potential impact of statewide voucher expansion

Bottom Line

Public schools have a unique mandate to serve all student – including private school students for specific needs

More competition for fewer students – deepens impacts of declining enrollment on public schools

Multiple school systems put strain on state and local resources to educate kids

Fiscal impact affects all districts – even with no voucher schools

Expansion of enrollment and funding could also enable new schools to open in more communities

Historic state surplus:

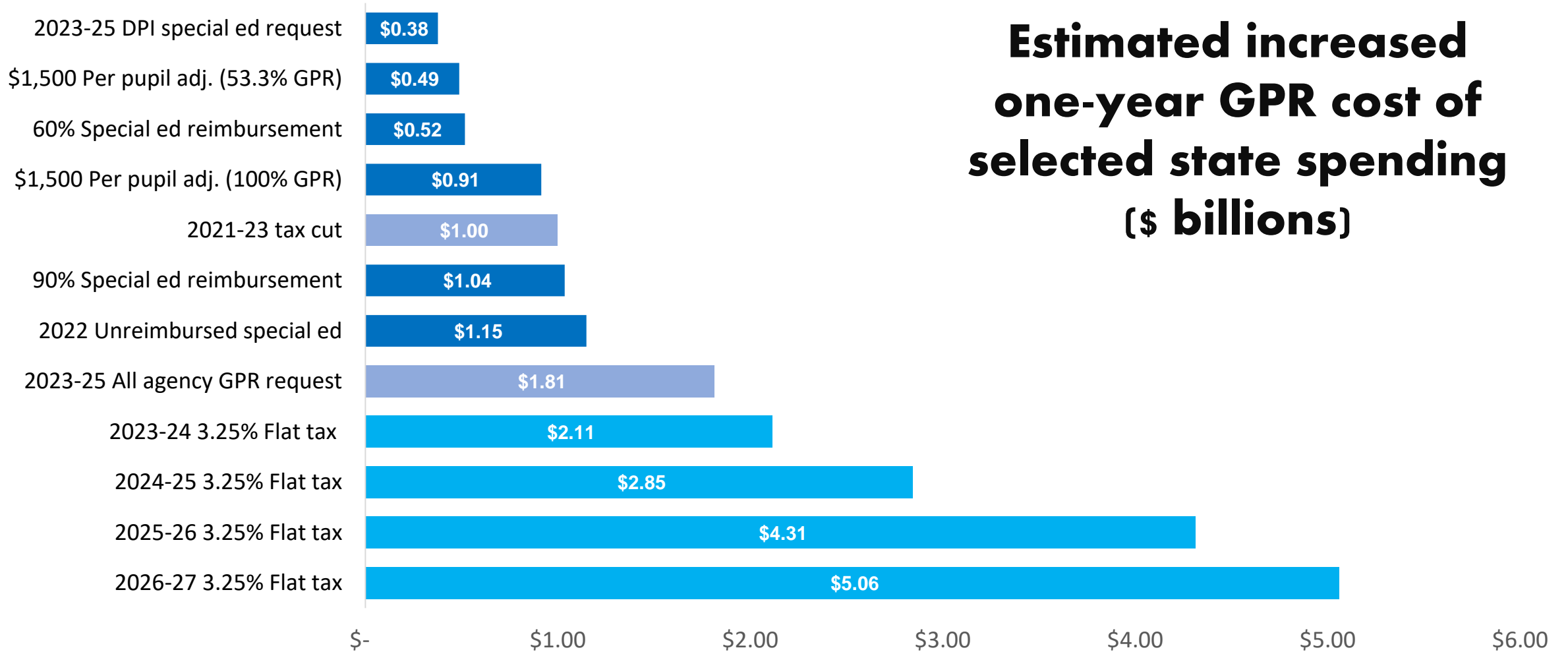
How did we get here? How will it be spent?

“State...is in its strongest position in state history.”

Projected Budget Surplus:	\$6.9 billion
Required Rainy Day Fund:	<u>\$1.7 billion</u>
Combined Total:	\$8.6 billion

“Between the projected surplus and the expected revenue growth, the **state could fund every single agency request and still have \$4.4 billion left over in the general fund.**”

State spending in perspective: **K-12 Education, Flat Tax, Other**





What does this mean for local districts?

**Budgeting for inflation,
pandemic recovery before state
budget is passed**

Districts are budgeting blind while waiting for state budget

School districts are building 2023-24 budgets now

State revenues for schools will not be set until the 2023-25 state budget is adopted

Divided government means state budget deliberations could stretch out beyond summer 2023



Where are we in the state budget timeline?

September 6 – Governor Evers and State Superintendent Underly announce shared 2023-25 budget priorities

December 2022: Governor starts holding public listening sessions

February 15 – Governor delivers Biennial Budget Message

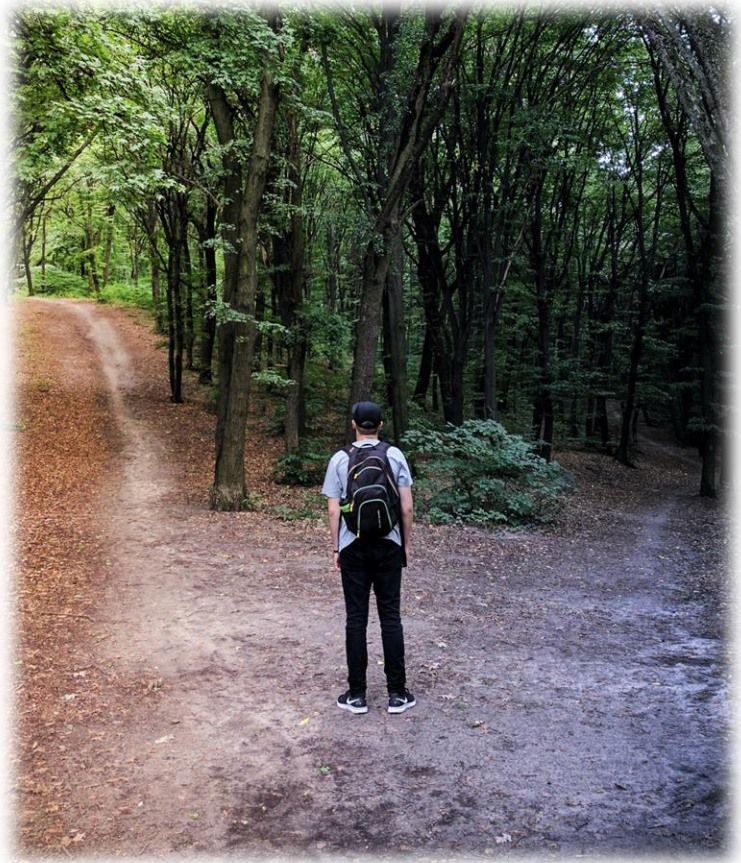
**ADVOCACY
ACTIVITY
ACCELERATES**

September 15 – DPI requests \$2.5 billion in 2023-25 budget request (reflects SAA priorities)

January 24 – Governor delivers State of the State address (likely to include budget priorities)

Feb/March - Joint Finance Committee receives budget, holds public hearing, votes on budget, sends to legislature

Budgeting amid uncertainty



How to communicate with board and community? What assumptions to use?

Too conservative: Risk triggering painful cuts: layoffs, health care, etc.

Too optimistic: Risk budget items exceeding available resources – deficits/holes

Labor costs: How will districts negotiate and budget for compensation amid record inflation, tight labor, unknown revenues?

Budgeting amid uncertainty

Coping with possible lack of stable, predictable funding

Preemptive stance: Expanded use of levy overrides – Record number of passed operating referenda in 2022

Defensive stance: Increased use of fund balance

Temporary stop-gaps: Defer maintenance/tech, delay filling positions, other unsustainable “gymnastics”

Last resorts: Program cuts, larger class sizes, staff cuts, delay compensation increases, risk losing staff to other districts, industries



What does K-12 public education need?

Unifying around a common message heading into the 2023-25 state budget season

Key: Advocate around common K-12 needs

**Focus is on
what kids
need:**

**A recovery
budget**

All school districts reflect specific communities with particular goals, spending needs, but...

Biggest impact on state budget will depend on consistent focus on our common priorities and challenges

Focus on a few big priorities



Goal: Garner broad support and substantial overdue “catch up” resources:

- Special education:** Categorical aid reimbursement: Substantial increase over current 31.7%
- General, flexible, spendable dollars:** Combination of inflationary revenue limit adjustment and per pupil aid PLUS increases to low revenue ceiling
- Mental health:** Broad-based flexible categorical aid (not grants)

Aligning our agendas



Tell your district story: After two years of frozen funding, what would “recovery” look like?

How would you use new spendable dollars?

Beware of falling prey to “negotiating with ourselves.”

3 big priority focus: **Helps everyone meet their particular needs. Avoids splintering K-12 advocacy efforts.**



Questions? Suggestions?

Please reach out!

Anne Chapman | WASBO Research Director
Anne.Chapman@wasbo.com