To levy or not to levy

Potential local impacts of expanded revenue limits

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Where does the 2023-25 state budget leave school districts?

Wisconsin's 2023-25 state budget enacted this past summer contains several significant changes to the fiscal landscape for K-12 public schools. Two of the key provisions affect revenue limits – the foundation of school district budgets and school property tax levies. After a two-year freeze, the state will increase per pupil revenue limits by $325 in each of the next two years. In addition, the budget increases the low revenue ceiling to $11,000, providing up to $1,000 in increased levy authority for eligible districts.

For school district leaders, either provision looks great at first glance. More revenue limit authority is better than less (and certainly better than none, as has been the case in six of the last eight years). Some school districts will realize substantial new resources, especially those that will be able to take full advantage of the new low revenue ceiling. And the certainty of $325 per pupil in revenue limit authority for at least two years is a welcome and needed source of predictability that drives wise, efficient, and longer-term budget planning. But how will these two particular provisions take shape in school district budgets and property tax levies going into the next two school years?

Before we dig into that question, let's get some historical perspective through the eyes of Wisconsin's 2023 graduates. The year they entered 4K (2009-10) coincided with the first year public schools were compelled to operate without inflationary adjustments in their revenue limits. And that trend would continue through their 12th grade year.

When they entered 5K in 2010-11, the state raised the bar on what it meant for students to show proficiency in reading and math. As they entered first grade, revenue limits were cut by more than $500 per pupil statewide. Later, when they became freshmen in high school, a global pandemic descended in 2021, revenue limits were frozen for two years, and school districts were expected to use one-time federal aid to meet both baseline operating costs and address unprecedented academic, health, and social-emotional needs.

By the time the class of 2023 graduated this past spring, school district budgets had on average $3,200 per pupil less to invest in their educational programs and infrastructure than they would have had if revenue limits had been allowed to keep pace with inflation since they were kindergarteners.

From a national perspective, when the class of 2023 was in four-year-old kindergarten, Wisconsin ranked 17th in the nation in per pupil spending on public education, and was spending about 7.2% more than the national average. By 2021, the state's ranking fell to 25th, and it was spending 5.2% less than the country as a whole. And those figures are from before the recent two-year freeze on revenue limits.

Since 2009-10, school districts largely have exhausted the tools for cost savings available to them including staffing cost flexibilities. Increasingly, they have turned to operating referendums as the only viable option for expanding the resources needed to serve their students. The question now is whether the revenue limit increases contained in the 2023-25 state budget will bring the fiscal relief and sustainability school districts need.

Results may vary: $325 might not mean what you think it means

Hundreds of dollars per student in additional revenue limit authority should bring considerably more resources to local classrooms, right? Maybe. The real-world impacts will differ based on both local and statewide factors. As a result of either or both of these policies, school boards may find themselves in one of two positions with respect to their property tax levy authority this fall.

In the first of these two positions, the school board will face a sizable increase in the tax levy without a corresponding increase in public school spending. In this instance, local factors and certain provisions in the state budget over which school districts have minimal control can combine in such a way that districts could find themselves with a higher tax levy thrust upon them just to maintain current spending levels – not even taking any increased costs or needs into account.

Two key elements in the state budget could contribute to such a scenario – the elimination of the High Poverty Aid appropriation (a property tax relief vehicle, not a source of spendable dollars for schools that will affect 130 school districts) and substantially higher payments to private schools for resident students using vouchers.

Compared to the $325 per pupil for school districts, voucher schools will see their payments jump between about $1,500 and $3,300 more per pupil. That translates to higher aid deductions from school district budgets that must be filled through the local levy to prevent structural holes in the district budget.

A third variable is the relative share of the state's equalization aid that every district receives, which itself depends on each district's unique combination of property wealth, enrollment, and prior year costs and the way those variables compare with every other district in the state.

In the second position, the school board may find that managing the tax levy precludes full use of their revenue limit authority. In other words, some school boards might find themselves having to decide whether to use any increase in levy authority they might have received in the 2023-25 state budget. In this scenario, after a two-year revenue limit freeze and revenue limits having trailed inflation for 14 years, school boards will have to weigh the prospect of raising the local levy against the need to meet their obligations.

To varying degrees, school boards across the state are projecting increased costs to compensate staff amid existing labor shortages and ongoing competition with neighboring schools and the private sector; provide ongoing post-pandemic academic and social-emotional supports for students; keep pace with inflation in operating costs; catch up on deferred maintenance and mounting capital needs; and more. Against those needs, school boards will have to assess how amenable local taxpayers are to seeing their property taxes go up over the next two years.

ESSER, enrollment, and inflation still key factors in levy decisions

Federal ESSER monies, enrollment, and inflation also will interact with the new revenue limit authority and influence school board decisions on the levy over the next two years. Any use of COVID aid in a district's 2023-24 budget could mitigate impacts on the local levy. But by the 2024-25 school year, federal pandemic aid will have expired. Depending on how much districts relied on it in their 2023-24 budget will determine the size of any ESSER "fiscal cliff" they will need to address in 2025. Addressing any shortfall will affect many district budget decisions, especially whether or not to run an operating referendum.

In addition to the end of federal COVID aid, declining enrollment is perhaps the single largest challenge to school district budgets, especially over time. By definition, it constrains how much $325 per-pupil in revenue authority could help a school district's budget. For districts that are losing a lot of students, a $325 per pupil increase is unlikely to offset the downward pressure on their revenues that stems from enrolling fewer and fewer students each year.

The school finance system does contain several safety-net measures to help spread out the impact of a given year's enrollment drop over time, including the use of a three-year rolling enrollment average and adjustments for declining enrollment. Most would agree these are well-intended stopgaps. But, like any band-aid, they do not address the root problem – the long-term inevitability that declining enrollment will shrink school districts budgets over time at a faster rate than any cost savings related to serving fewer students. They also carry unintended short-term consequences. The Legislative Fiscal Bureau estimates that 314 of Wisconsin's school districts were in declining enrollment in 2022-23. That means as many as three quarters of districts statewide are poised to lose the adjustments that were in place to help them – counteracting some or all of the gains districts would have expected from the $325 increase in the revenue limit and the new $11,000 low revenue ceiling.

The impact of the $1,000 increase in the low revenue adjustment is also limited. Because of a previous law that penalizes districts that have lost an operating referendum in the past three years, as many as 19 of Wisconsin's lowest spending districts – those that arguably need the $1,000 low revenue adjustment most – will be barred from using it unless they can pass an operating referendum.

Moreover, even in cases where districts are able to plug the full $325 per pupil into their budgets in each of the next two years, the practical impact likely will not be game-changing. First, it only represents an estimated increase of between 1.3% and 3.3%

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for Wisconsin school districts' base revenue limit per pupil going into the 2023-24 school year. Amid the inflationary pressures school districts have been managing for over a decade, this is hardly a windfall. Although it exceeds the nominal adjustment of any year since revenue limits began, according to the Legislative Fiscal Bureau, it still does not keep pace with estimated inflation. School districts would need at least $393 per pupil in 2023-24 and $403 in 2024-25, just to keep their heads above inflationary waters for the next two years. And this does not even account for the fact that school districts are missing $3,380 per pupil that would have been built into their budgets by 2024-25 had the revenue limit been allowed to keep pace with inflation.

Difficult choices: Cuts? Deficits? Referendums?

For all of the reasons discussed, despite the increased revenue limit authority provided in the state budget, many districts will face difficult choices as they build their operating budgets over the next two years.

Without additional resources, districts will have to consider cutting costs in an any number of undesirable ways – increase class sizes, leave educator vacancies open, delay plans to compensate staff competitively (and risk adding to the shortages they already are shouldering), cut valuable avenues for keeping students engaged in school like the arts and athletics, discontinue specialty and difficult-to-staff programming like CTE and AP courses, continue to defer critical maintenance needs, close school buildings, or other measures.

Instead of or in combination with cost-cutting measures, some school districts may also face the need to operate at a deficit using fund balance, at least temporarily. Finally, depending on a number of factors that are not necessarily aligned with student need or district costs, some districts will decide the best course of action is to expend the time, resources, and political capital to ask voters for more revenue limit authority through an operating referendum.

Although each of those choices could help stabilize a district's budget, they have the potential to impose real, but difficult-to-quantify costs on students and school communities in terms of educational quality, academic outcomes, organizational culture, operational efficiencies, and even trust in the school district.

The three Cs: Communication, communication, communication

In light of all of this complexity, it will fall to school boards and district administrative leaders to provide careful, continuing, and consistent communication with all stakeholders about the impact of the 2023-25 state budget on local school resources.

The general public likely will have an overly optimistic understanding of those impacts based on local media coverage, which largely overemphasized the significance of the revenue limit increases and over-simplified the potential impact of Governor Evers' partial veto extending the $325 revenue limit adjustment for 400 years.

We will not know the full impact of the first year of the budget's new provisions until October 15th when DPI publishes information on the factors that drive aid, school levies, and revenue limits for the 2023-24 school year. Before and after that time, school districts will want to engage in transparent conversations about why and how the district may be projecting such significant needs and deficits despite some of the positive aspects of the state budget, the nature of the budgetary challenges an operating referendum would be expected to address, and the hard fact that a nonrecurring referendum, by its nature, is a temporary fix that builds a future fiscal cliff into the district's budget once the referendum period ends.

In these communications, it will fall to school districts to provide transparency where the legislature did not regarding the impact on their budget and local school levy from various local aids and tax credits built into the state budget.

Traditionally, the primary direct lever for supporting schools while limiting impact on local property taxpayers in the state budget is the use of general equalization aids, as it is these aids, combined with the local school levy, that determine a district's revenue limit.

Funding schools that way enables school districts to clearly explain to local taxpayers how much school support is coming from local taxes and how much the state is investing. However, in the 2023-25 state budget, the legislature elected, to provide more in the school levy tax credit (SLTC)

($590 million over the biennium), than in general equalization aids ($543.3 million), primarily to help blunt the impact of dramatic increases for voucher schools and a portion of the expanded revenue limits.

This policy decision is notable in that while equalization aids are used to provide property tax relief to districts with relatively low property wealth, school levy tax credits help a different set of communities with relatively more property wealth. In addition, it poses a major communications challenge for school districts. It is not part of district budgets, and school boards have to determine school levies before information on SLTC impacts on their local taxpayers is available.

One helpful aspect of all of this is that more is appropriated for both general aid and SLTC in the second year of the budget than in the first year, which could help offset the impact of the expiration of ESSER and limit increases in local property taxes.

Predictability fosters sustainability

In short, despite the increases for schools contained in the state budget, no community will escape the need to address, either now or in the near future, the impact of over a decade of compounded inflationary increases in district operating costs coupled with the long-term, ongoing costs associated with pandemic academic recovery, special education, mental health, and other student needs.

As a result, local school districts across the state still will be challenged to strike an acceptable balance between what is best for kids with what is affordable.

One bright spot is that with the $325 per pupil increase guaranteed for two years and possibly more, school districts will have a stronger foundation on which to make budget and strategic planning decisions on a longer time horizon – to move away from the use of short-term maneuvers and politically expedient decisions that have been necessary in recent years to balance budgets and minimize increases to the levy, but that can grow into costly challenges in the future.

With the ability to think more long-term, school boards and district administrative leaders will have a little more room to do what they do best – act as creative problem solvers, wise stewards, and fierce advocates to sustainably deliver the best possible educational opportunities for their students and families.