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Midterms bring less uncertainty, but major school finance questions remain

With the November midterms behind us, the Wisconsin K-12 school finance world faces a lot less uncertainty. Tony Evers' win and no Republican supermajority in the Assembly means the next legislative session and budget season will unfold under divided government without the power to override the governor's veto pen.

And despite the relatively narrow margins in statewide races for Governor and U.S. Senate, almost 80% of school referenda passed. Pausing to let that sink in…that means, despite a commonly heard narrative claiming that schools are awash in state and federal dollars and that local taxes are too high – on four fifths of the ballot questions this November, voters agreed to potentially raise their own taxes to support local schools. At the same time, a sizeable share of referenda (17 or 21%) failed. In those communities, as well as in communities that did not run a referendum at all, and even in many where referenda passed, school districts now turn to big conversations with their boards and families about next year's budget and broader legislative priorities.

Here at WASBO, we have been presenting at Fall Conference and other venues on the state of school finance in Wisconsin. The goal is to help school districts communicate the local impacts of state-level policy decisions and advocate with a unified voice about what state policymakers should prioritize in next year's state budget and beyond.

This article encapsulates recent discussions of factors that have shaped Wisconsin school finance as it exists today and the opportunities and challenges that lie ahead.

Where we are now

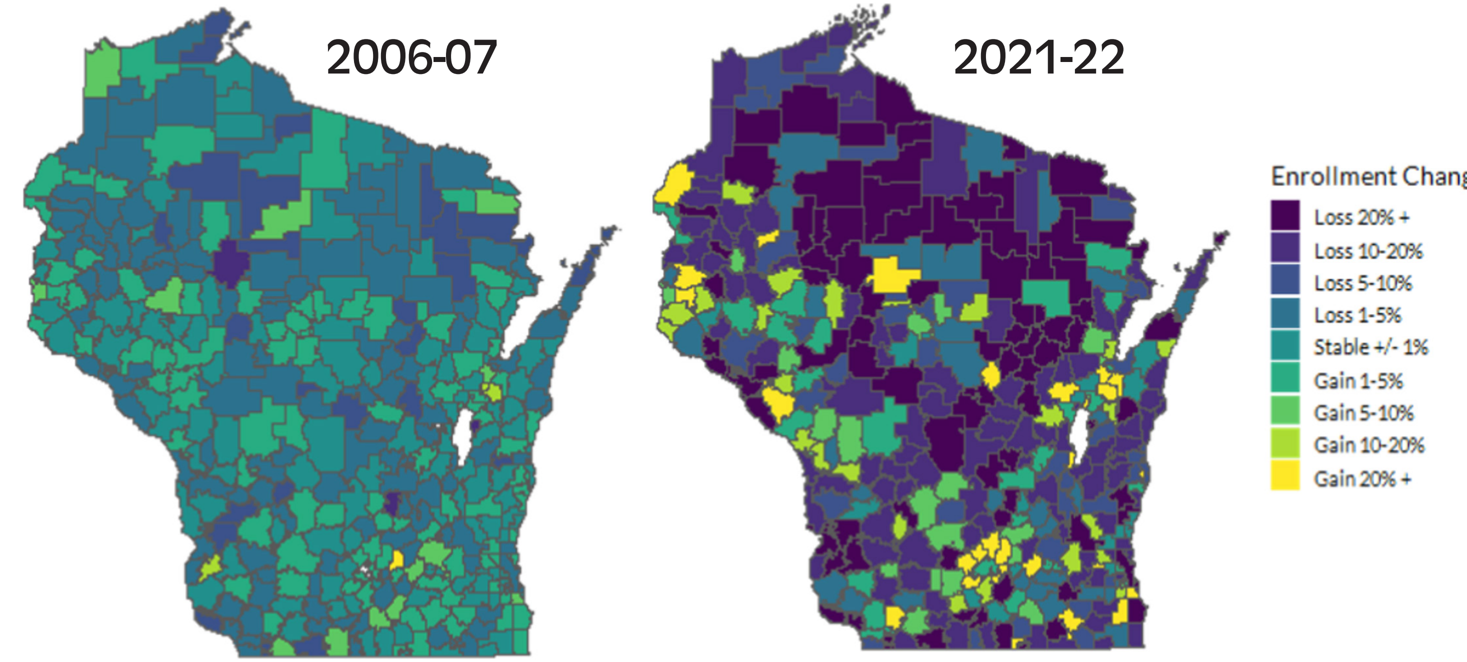
To describe the current moment in Wisconsin school finance, a good place to start is the legislature's decision to redirect $2.6 billion in federal aid that was intended to help school districts cope with one-time pandemic-related needs. Instead, those monies supplanted annual revenue limit adjustments in the 2021-23 state budget for regular, ongoing school operations. What could have been an opportunity to make historic one-time investments in curricula, facilities, programming, and temporary staffing to restore and propel students after the educational disruptions of the pandemic, instead, kept revenue limits flat for two years and set the state's school districts up for a potential dramatic fiscal cliff in the 2023-25 biennium.

Aside from creating a two-year structural hole in state and school district budgets, an important aspect of this policy decision is tied to the fact that the majority of pandemic aid for K-12 schools was not distributed in the usual way – through state revenue limits and equalization aid formula. Instead, allocations used the federal Title I formula (which is based on the number of low-income students who live in a district). This method that makes sense from an equity perspective but made it hard for some districts to cover pandemic-related costs.

The legislature's decision to supplant revenue limit adjustments with one-time federal pandemic aid only exacerbated a long-standing trend since long before the arrival of COVID-19. Revenue limit adjustments have lagged behind educational costs since automatic inflationary adjustments were abolished in 2009-10 as a way for the state to cope with the fiscal strain of the Great Recession. Since then, revenue limit adjustments have never again aligned with the cost of inflation. Despite some media accounts, in terms of buying power, K-12 education funding levels have been losing ground since 2009. Had revenue limit adjustments only stayed level with inflation, without any real increases in funding, on average statewide, school districts would have more than $3,200 per pupil today. For a district with just 1,000 students, that would be an extra $3.2 million in revenue limit authority.

Following this de-prioritization of K-12 education in state funding, Wisconsin's national ranking in per pupil spending fell relative to the rest of the country. It dropped its ranking from 11th in the nation in 2002, when it was spending 11% more than the national average - to the middle of the pack – 25th in 2020 when spending fell to 5.6% below the average nationwide. Not surprisingly, the share of Wisconsin's GPR going to K-12 education has fallen from 38% in 2011 to 31% a decade later– a clear shift in legislative priorities. These trends highlight the perennial tradeoff between the twin policy objectives of school spending and property tax relief. As K-12 education has lost ground, we have seen a historic decrease in state and local tax burden in Wisconsin which has reached its lowest level in a half century – an outcome that, despite the challenges it creates for K-12 education, likely helps many Wisconsin households.

Percentage Change in Enrollment (from 2005-06 base)



Source: Department of Public Instruction.

How we got here

One way we can trace our path here is by looking back at trends in enrollment, inflationary costs, pandemic costs, and school referenda.

Enrollment

As shown in the two maps above, one of the central drivers of school district funding, enrollment, has been declining in the majority of Wisconsin's school districts – the vast majority of which are rural – and becoming more concentrated in a small number of population centers across the state. **Compared to the 2005-06 school year**, as of 2021-22, three quarters of school districts are in declining enrollment, and three quarters of the state's students are concentrated in less than a third of school districts. At the same time, more than half of all students attend schools in districts with fewer than 1,000 students. Such trends follow steady demographic trends such as an aging population, a decline in the birthrate since 2007, and a resulting decline in the share of school age children since at least 1990.

What is the impact of declining enrollment on school finance? At first glance – funding according to student count makes sense. As districts grow, expenses grow, and funding follows. However, under this system, school districts cannot shrink easily when enrollment is declining. Costs do not fall in step with enrollment drops. That goes for fixed costs such as facilities, utilities, curricula, and other investments that do not fluctuate with the number of occupied classroom seats. But even costs considered variable do not align with enrollment changes. A given drop in a district's enrollment usually is spread across multiple classrooms, grades, and schools, making it difficult to cut high-cost expenses such as teachers, staff, or the number of classrooms without compromising instruction or class sizes.

Amid this shrinking pool of students, we are seeing a growing movement advocating for universal expansion of taxpayer funded vouchers to attend private schools. Under current law, such a policy shift has the potential to cut aid or raise property taxes in local districts where private schools are attracting students. It also would shrink the amount of aid available for school districts statewide and shift the relative differences in membership numbers between districts (thereby shifting how aid is distributed). The bottom line is that voucher expansion amid declining enrollment creates more competition for fewer students and can have a financial impact even on districts where no private schools exist.

Rising costs: Inflationary and pandemic pressure on school districts

We have already mentioned the second key force creating the current state of affairs for K-12 finance in Wisconsin and the feeling of a looming fiscal cliff – historic inflationary increases and related pandemic costs. The Consumer Price Index increased by 4.7% in 2022 and has been estimated to reach about 8.0% in 2023. When revenue limits were frozen in the 2021-23 budget, this inflationary spike was not built into school district budget projections.

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Major finance questions remain

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School districts are trying to keep up with ordinary expenses, while also competing with each other as well as the private sector to retain and fill vacancies for critical instructional and support staff.

As if plain old inflationary pressures weren't enough, school districts must now absorb rising pandemic-related costs of meeting new academic needs as well as needs related to students' physical and mental health (which arguably must be met before any meaningful learning can take place). This includes a rise in special education costs driven in large part by difficulties with emotional regulation, executive functioning, and learning deficits. Exacerbating the rise in these expenses is the fact that they are reimbursed by state and federal sources at a small fraction of the actual cost, leaving school districts to pay for these mandated services with general funds intended for all students.

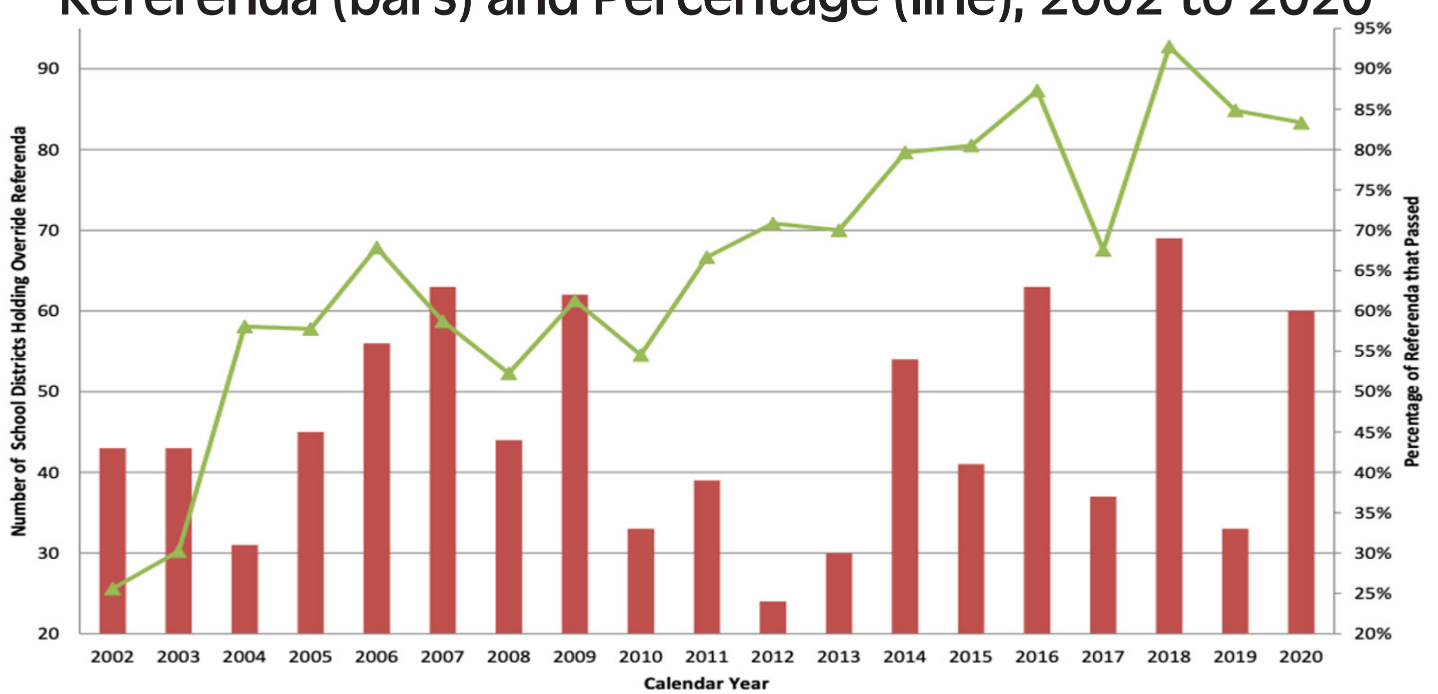
Rise in use of school referenda

Amid this confluence of forces, it should not be surprising to see another feature driving the current state of Wisconsin school finance captured in the figure below – rising trends in the number, amount, and passage rates of local referenda to exceed revenue limits. More recent data tell us this trend is continuing. The year 2022 marked the third highest total number of ballot questions since 2000 and the highest number of operating referenda since at least 2000. The overall upward trend in passage rates coincides with the last decade when state policies were cutting predictable, spendable funding in the form of low or no annual revenue limit adjustments. But school districts' ability to access this coping strategy has been uneven, and arguably, inequitable. Between 2002 and 2022, 112 school districts have not held a single referendum and another 87 have held only one.

What might explain these disparities? The decision to go to referendum is complex. The impact on local property taxpayers of a given district's decision to override its revenue limit will vary by what percentage of its revenue limit is covered by state aid versus local levy. Generally, taxpayers in highly-aided districts should see a lower percentage increase in their levy as a result of a levy override than would a district that receives little to no state equalization aid. Preference for using referenda to cope with fiscal pressures also might follow a community's political leanings.

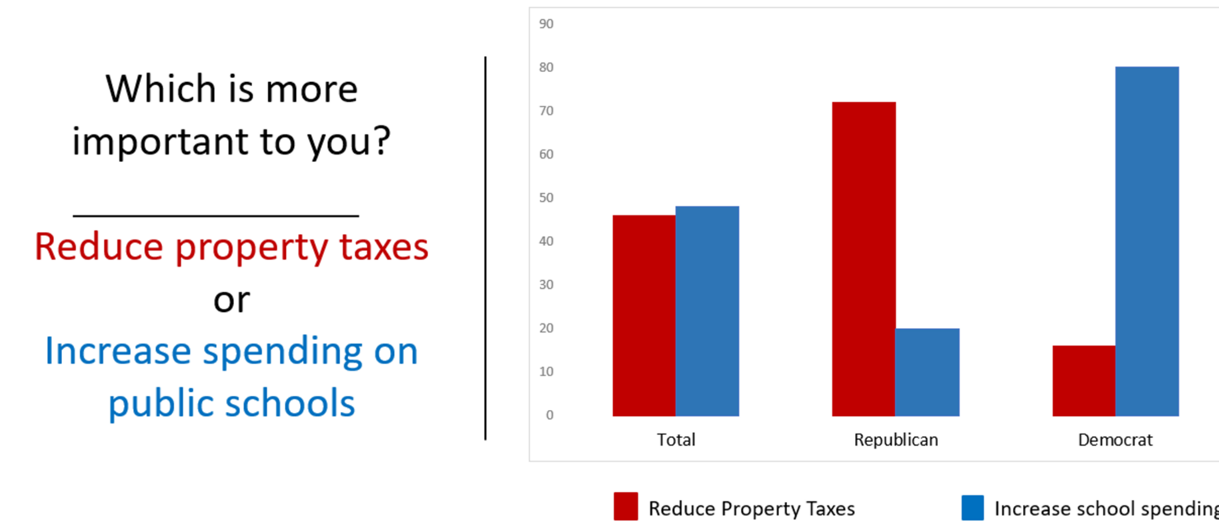
According to an October 2022 Marquette University Law School poll, the tension between reducing property taxes and increasing school spending largely falls along partisan lines. Republicans overwhelmingly favor the former, and democrats favor the latter by an even wider margin. Overall, including independents, the poll indicates a slight preference for increasing school spending (48%) over property tax relief (46%). At the same time, as we saw with the 80% referendum pass rate in November 2022, at the individual district

Number of School Districts Holding Revenue Limit Override Referenda (bars) and Percentage (line), 2002 to 2020



Source: Funding Public Education in Wisconsin: The Property Tax-School Funding Dilemma (Reschovsky, 2022)

Marquette University Law School Poll October 24 - November 1, 2022



Source: Marquette University Law School Poll – October 24 – November 1, 2022

level where referendum questions were put to voters, support was much higher. If past trends apply here, that support likely superseded a given community's partisan voting patterns.

What is ahead

As school districts navigate these complex waters, what is on the horizon? The last round of federal ESSER pandemic aid expires in September 2024, halfway through the 2023-25 state budget. Given the widespread use of one-time ESSER monies for ongoing school operations, recently passed referenda might mitigate inflationary pressures and revenue constraints in the short run. But the extent to which the majority of districts will face a looming "fiscal cliff" chiefly will depend on how the governor and legislature navigate differences in their policy objectives and tactics in the 2023-25 state budget proceedings.

Throughout this period, districts will be called on to dispel misinformation, explain school finance dynamics, and communicate implications of actual and potential state and local policy decisions. Among such topics, messaging to boards, staffs, and communities will need to address district ESSER spending policies, the context of frozen state-determined revenue limits in which those decisions were made, and the implications of those and other external forces on their ability to serve their students in the years to come.

As the next legislative session unfolds, the State of Wisconsin's coffers are in a much healthier state than they were going into the 2011-13 budget when a budget repair bill and historic cuts to K-12 education were enacted. With $5.4 billion dollars in state surplus and $1.7 billion in the rainy day fund, Wisconsin's state finances are the strongest they have been in half a century. Among the questions K-12 education stakeholders will be asking in the next legislative session are 1) What will legislative leaders decide to do with these historic reserves? and 2) Will the current political landscape favor a statewide expansion of taxpayer-funded private school vouchers? Legislative GOP leaders already have signaled an intent to use some of the surplus for property tax relief and position universal school choice as a bargaining chip in upcoming discussions on K-12 funding.

To some degree, school districts are as unique as the communities they serve. But they are alike and would benefit from speaking with a united voice on a few key points. It will be important for policymakers to understand – and school districts to communicate – that without stable, predictable, and spendable dollars to at least keep up with inflationary costs, school districts have only a few tools in the toolbox, none of which, arguably, constitute a sustainable future-oriented state-level K-12 funding system.

They can try to expand available revenues by asking local taxpayers to override revenue limits, they can increase fund balances to buffer against fiscal uncertainty, or if the straights become dire enough, they can start to spend down their reserves.

Without any of these options, they will have little choice other than to consider program cuts, larger class sizes, and cuts in staffing. It could be said that post-pandemic, more than ever, schools need these resources to serve the needs of their students and the state needs these investments to cultivate its future workforce and economy.

For more information, here is a slightly updated version of the slide deck we used at Fall Conference. We are continually developing these ideas and will be presenting an update to this message at the State Education Convention in January.

Please reach out to me with any questions, suggestions, or materials you have used in your own work that we should incorporate in future "state of Wisconsin school finance" discussions. My email is Anne.Chapman@wasbo.com.