

REVENUE CAPS

AND THEIR IMPACT ON WHITEFISH BAY SCHOOLS

“There’s no such thing as a free lunch,” the old saying goes, and it is certainly true in public education. The cost of a “free” public education is paid primarily by a combination of state funding and local property taxes. The money available to school districts is limited by “revenue caps,” a concept relatively new in Wisconsin school finance.

What are revenue caps? Why do revenue caps have such an impact on school districts? How will revenue caps affect your child’s education? This article is an introduction to schools and money, and what parents and other partners in public education need to know about Wisconsin school finance.

A Bit of History

Before revenue caps were created, local school boards had the authority to set budgets and local property tax rates. Communities controlled school district spending by electing school board members who reflected the community’s willingness to tax themselves.

By the early 1990s, some people in Wisconsin believed that school district costs (and the resulting property taxes) were too high and

rising too quickly. Also, school districts with low property values were struggling to raise sufficient revenues through property taxes.

In the early and mid-1990s, Governor Thompson and the Wisconsin Legislature enacted a series of laws that dramatically changed the school finance system. The new laws were intended to:

- 1) provide property tax relief;
- 2) limit increases in school district spending; and
- 3) increase the equity of school funding across districts with dramatically different property values.

Included in the new system were the following:

- The state increased its commitment to fund K-12 public education (through sales and income taxes) from one-third of the overall cost on a statewide average to two-thirds.
- The state’s funding is distributed among all school districts through a complicated formula designed to provide more equal funding despite differences in local property tax bases. Districts with lower property values may receive more than two-thirds funding from the state. Districts with higher property values receive less. Relative spending levels are also a factor in the formula. Whitefish Bay receives less than half of its costs (as defined under the formula) from the state.
- The Legislature intended that the additional state funding would provide property tax relief, not more money to schools. It also was unwilling to commit to two-thirds funding if school districts continued to increase their budgets. Therefore, the new law limited or

“capped” the total revenue school districts can receive.

- School revenues were frozen at their 1993 levels, with small increases per year, not tied to inflation.
- Teacher salary and benefit cost increases were effectively capped at an amount equal to 3.8 percent per year, because school districts can now avoid salary arbitration by a “qualified economic offer,” or QEO, of this amount.
- Lawmakers allowed one way for school districts to exceed the revenue caps. School districts have the authority to hold a referendum asking voters to permit property tax revenue increases beyond the capped amount. However, for many districts, including Whitefish Bay, the school funding formula makes this option difficult to pursue, as explained below.

The Effects

The funding system created by these laws has had dramatically different effects on different school districts, depending on changes in their enrollments, property wealth per pupil relative to the state average, the age distribution of their teaching staff, the age of their buildings and how they funded capital and repair costs historically, and idiosyncrasies in school budget decisions made in the year prior to the imposition of the caps.

Whitefish Bay has been able to minimize the impact of the revenue caps in the short-run through prudent management, careful planning, and a thorough understanding of the dynamics of the funding formula. Nonetheless, revenue limits impact all planning in the school

district. Limiting revenue through this formula forces the district to make difficult choices among competing needs.

Living With The Reality

The new system has had the desired effect of reducing property taxes. However, there are also problems that school districts face as a result of the system. Examples, and how these issues impact Whitefish Bay, are:

- *Declining enrollment.* The revenue caps completely control the primary sources of revenue per pupil. The only way to increase revenue without going to referendum to exceed the cap is to increase the number of students in the district. However, many districts face substantial enrollment declines, as do demographic projections for the State as a whole. There are provisions in the law that allow districts to use a three-year rolling average to calculate the number of students (so the impact isn't fully felt for three years) and an allowance to continue to count 75 percent of enrollment loss for one year. Nonetheless, schools with large enrollment declines can still lose significantly more revenue than costs that they can cut through reductions in teaching staff or other overhead. For example, if a district loses 25 students, it may not be able to simply eliminate one class section to reduce costs, because those 25 students may be spread over the entire K-12 population. Until now, Whitefish Bay's enrollment has remained relatively steady. However, Whitefish Bay's enrollment is projected to decline by 150 - 200 students over the next five years.
- *Inadequate annual increase in the revenue caps.* Since 1993-94, school districts have been allowed to increase their maximum allowable per pupil revenue by a statutorily determined amount each year, which, in many cases, is not keeping pace with many costs and is less than salary increases that result from the QEO law. Since

wages and benefits constitute over 80 percent of school budgets, the mismatch between the allowable per pupil revenue increase and the QEO has created serious difficulties for districts with few teacher retirements. Higher paid senior teacher retirements in Whitefish Bay have eased this problem so far. However, attracting and retaining top quality educators, in an increasingly tight labor market, is a growing problem.

- *"Tax penalty."* When the new funding laws were enacted, some legislators and politicians claimed that a community's ability to vote to exceed the revenue caps through a referendum vote was the "ultimate local control." As a result of an extremely complex three-tier funding formula that seeks to promote greater equity in school funding across districts of varying property wealth, "middle income" districts like Whitefish Bay face a substantial barrier to the exercise of our referendum right. Currently, Whitefish Bay residents would have to raise local property taxes by \$1.47 for each additional dollar of revenues that would go to our schools.
- *Building maintenance and repair.* Whitefish Bay school buildings are quite old, charming, and require continuous maintenance and repair (e.g., roof, window, floor, and door replacement.) Historically, Whitefish Bay did not include long-range maintenance spending in its operating budget. Prior to 1993, school districts could issue debt of up to \$1 million without going to referendum, and pay it back over several years by adjusting the tax levy. This option is still available, but only within the revenue caps, which would then require a reduction in other spending (e.g., teaching staff, academic programs.) Capital costs now must compete directly with textbooks and curricular materials, staff development, efforts to lower class size, programs for at-risk or gifted students, and potential new programs such as foreign languages in

the elementary grades.

- *Money and control.* The state's increased funding of K-12 education has also given it the will to exercise a greater degree of control over public schools. Since the increase in state funding there has been an increase in centralization of authority at the state level in terms of spending, academic content, testing and promotion and graduation decisions. Some fear this will lead to a "one size fits all" state-run school system.

What You Can Do

Although Whitefish Bay has been unusually fortunate in being able to avoid the more serious impacts of the revenue caps, the longer the caps are in place, the harder will be the choices faced by our district in allocating tightly controlled resources among competing needs. The state's two-thirds funding commitment has created a strong incentive for the state to place a tight reign on education costs, and to weigh the needs of our children's education against those of the many other worthy programs funded by the state. Our locally elected school board's only duty is to responsibly ensure the quality of our children's education, and it is most familiar with our community's problems and educational values. Yet current state law directly limits their latitude.

Advocates for Education supports identifying and advocating for the Wisconsin Legislature to implement exceptions to the revenue caps which would permit the Whitefish Bay School District to achieve its program, technology and long-range facility maintenance goals. We invite you to follow this issue with us. This article is intended to be only an introduction to these complex issues. If you would like to know more, visit our web site, www.advocatesforeducation.org, later this fall for more detailed articles from prior AFE newsletters.