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An Analysis of the Proposal to Reduce Revenue Limits for Wisconsin School District

Andrew Reschovsky

In 1993, the Wisconsin Legislature imposed revenue limits on local school districts. The limits restricted the amount by which each school district could increase the **sum** of district property tax revenue and general aid from the state (sometimes referred to as equalization aid) in any given year.[1] In its first year of operation, the 1993-94 school year, the overall revenue increase was limited to $190 per pupil. Although the revenue limit was increased in most years, reaching $275 for the 2008-09 school year, the revenue limit grew at or below the rate of inflation for most districts with stable pupil populations.

Revenue limits were enacted because legislators were frustrated that increases in state aid were doing little to reduce the level of school property taxation. By imposing revenue limits and continuing to increase general aid, the legislature could guarantee that most school districts would lower school property tax rates. For each district, in any given year, the revenue limit was a fixed amount, so any increase in state aid would lead to a dollar-for-dollar reduction in property tax levies. The only way that a school district can increase revenues in excess of the revenue limit is to gain voter approval through a referendum.

In enacting the 2009-11 biennial budget, the Legislature, in order to reduce property tax increases in response to cuts in state aid, reduced the annual per-pupil revenue limit increase from $275 to $200 for the two years of the current. The budget bill also specified that the limit would return to $275 per pupil for the 2011-12 school year. The annual increases in the revenue limit are designed to reflect annual increases in the costs of providing education. As the allowable per-pupil increases are a fixed dollar amount, they provide smaller percentage increases in allowable revenues in districts facing above-average increases in costs. These cost increases may occur in districts facing large increases in pupils requiring extra services because of disabilities (special education), limited English language ability, or students coming from economically disadvantaged families. In years with rapidly increasing fuel costs, rural school districts that must transport their students long distances also face above-average increases in costs. In most years, the revenue limits allowed per-pupil revenues in the average school district to rise at about the rate of inflation. The $200 per-pupil increase mandated in each year of the current biennium allows a revenue increase of 2 percent in the average per-pupil revenue district.

Although the governor's 2011-13 budget has yet to be released, the media have widely reported that the new budget will include reductions in school aid that total over $900 million and a new revenue limit that mandates a $500 per-pupil **reduction** in the sum of general aid and property tax revenue.[2] The state would reduce what it pays each district and districts would be further limited in their ability to compensate for cuts in state aid by raising property taxes. In some cases, districts might even be required to reduce local property taxes.

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[1] A small state aid program known as computer aid is also included in the revenue limit base.

[2] For example, see a February 16, 2011, story in the Milwaukee Journal Sentinel, http://www.jsonline.com/news/milwaukee/116369554.html

This paper analyzes the proposed reduction in the revenue limits that Wisconsin school districts face.

Methodology

Ideally, I would like to predict the revenue limit each of Wisconsin's 424 school districts will face for the 2011-12 school year. Carrying out those calculations, however, requires information on the number of students each district must educate in 2011-12. As forecasting enrollment levels by district is difficult, I have chosen a simulation approach based on available data. First, I calculate the revenue limit faced by each school district in the current year. These calculations are based on a $200 per-pupil increase in the allowable limit mandated in the 2009-11 state budget. Next, I calculate what revenue limits would have been this year (2010-11), if each district's limit had been reduced by $500 per pupil. Although this simple simulation exercise is unable to account for increases and decreases in enrollment between this year and next, it provides a rough estimate of the likely impact of the proposed policy.

Results

In aggregate, the impact of lowering revenue limits would be to reduce total allowable revenues by $594.7 million. To get a sense of the impact on school funding, I calculate each school district's revenue limit reduction relative to its actual 2010-11 revenue limit. Across all districts, the proposal results in a 7 percent reduction in allowable revenues.

To explore the different effects that the proposal to lower the revenue cap would have on low- and high-spending districts, the data in Table 1 present the average percentage reduction in revenue limits for school districts characterized by the level of their actual 2010-11 revenue limit. As expected, percentage reductions in the districts with the lowest revenue limits would be 7.4 percent, while allowable revenue in the highest-revenue-limit districts would fall by 5.3 percent.

Table 1

Proposed Reduction in School District Revenue Limits by 2010-11 Revenue Limit per Student

2010-11 Per Student Revenue Limits	Number of Districts	Number of Students	Percentage of Students	Average Percentage Reduction
Less than $9,500	108	195,958	22.8%	-7.4%
$9,500-$10,000	124	265,444	30.9%	-7.2%
$10,000-$11,000	133	305,093	35.6%	-6.7%
$11,000-$12,000	36	80,443	9.4%	-6.2%
$12,000 and over	23	11,267	1.3%	-5.3%
Total	424	858,205	100.0%	-7.0%

Source: Author's calculations using data from the Wisconsin Department of Public Instruction

In Table 2, I organize school districts by their property value per student in order to see whether the percentage decline in the revenue limit would be highest in property poor or property wealthy districts. The results indicate that with the exception of a handful of districts with very low per-student property values, districts with higher property values per student would on average face smaller reductions in allowable revenues. Thus, the allowable revenues in the average school district with per-student values between $250,000 and

$325,000 would fall by 7.2 percent, while revenues would fall by 6.0 percent in the richest districts (those with per-student property values over $2 million). Districts with higher property values would be forced to reduce revenues by a smaller percentage than poorer districts.

Simulation results for individual school districts are available from the author.

Table 2
Proposed Reduction in School District Revenue Limits by Equalized Property Value per Student

Equalized Property Value per Student	Number of Districts	Number of Students	Percentage of Students	Average Percentage Reduction
Less than $250,000	7	12,566	1.5%	-6.7%
$250,000-$324,999	26	23,776	2.8%	-7.2%
$325,000-$400,000	73	190,319	22.2%	-7.1%
$400,000-$499,999	99	227,481	26.5%	-7.1%
$500,000-$749,999	123	267,705	31.2%	-7.0%
$750,000-$999,999	40	89,749	10.5%	-6.7%
$1,000,000-$1,999,999	35	37,922	4.4%	-6.5%
$2,000,000 and over	21	8,687	1.0%	-6.0%
Total	424	858,205	100.0%	-7.0%

Source: Author's calculations using data from the Wisconsin Department of Public Instruction

Discussion

Governor Walker has stated that the requirement in Senate Bill 11 (the budget repair bill) that all state and local employees contribute 5.8 percent of their salaries toward their pensions and pay 12 percent of their health insurance premiums will enable school districts to cope with their lower revenue limits and avoid employee layoffs.

The Office of the Governor has estimated that these employee benefit contributions would in aggregate save Wisconsin's school districts nearly $490 million in the first year. Even if this estimate proves to be accurate, these savings to school districts would be insufficient to cover the nearly $600 million reduction in allowable revenue resulting from the mandated reduction in revenue limits. Furthermore, the data in Tables 1 and 2 suggest that cost savings due to employee benefit cuts (which are likely to be more or less proportional to revenue limits) would come closer to covering the reduction in allowable revenues in high revenue limit (and hence higher spending) school districts and in high property value districts.

Even with sharp reductions in the costs of employee benefits, over the next two years school districts across the state are likely to face rising costs elsewhere in their budgets. If the current political unrest in the Middle East continues, it is likely that energy costs will rise dramatically. Even with employees paying a larger share of health-care premiums, the cost of health insurance is likely to increase. Data from the Wisconsin Association of School Boards suggest that since 2003, the average annual cost of health-care premiums has risen at a rate

of 6.5 percent.[3] If trends over the past few years continue, the proportion of public school students who qualify for special education and who are eligible for free and reduced price lunches will increase. These increases have cost implications for districts as additional services are in many cases mandated by federal and state statute. Facing lower revenue limits, many school districts will be forced to eliminate programs and increase class sizes. I would predict that many districts will find it hard to avoid substantial teacher and staff layoffs.

Most school districts will face additional fiscal pressure over the next two years because of reductions in federal aid. The federal stimulus funds, which prevented large cuts in school funding during the current biennium, will disappear. In addition, Congress is considering large reductions in federal education aid as part of attempts to curtail non-defense discretionary expenditures.

[3] These data are available at http://www.wasb.org/teacher-health-insurance-cost-contribution-comparisons-3.html