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The Impact on Property Taxes of the Governor's 2011-12 School Funding Proposals

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Introduction

Governor Scott Walker's proposed state budget for the 2011-13 biennium includes several major changes in the funding of public elementary and secondary education. The budget bill as submitted to the Legislature (Assembly Bill 40/Senate Bill 27) calls for large reductions in state aid to local school districts coupled with mandated reductions in each district's statutorily imposed *revenue limit*.

The revenue limits, which were first imposed in 1993, place a dollar limit on the money each school district can raise from the **sum** of general school aids and property taxes. Until this year, each school district's revenue limit was allowed to increase each year by a fixed per-pupil amount. During the current biennium (which ends June 30, 2011), this amount is equal to \$200 per pupil. Because the revenue limits apply to the sum of general state aid and property taxes, by increasing state aid by an amount larger than the allowable annual revenue limit increase, the Legislature could force school districts to reduce their school property taxes. The only way that school districts could increase revenues in excess of their revenue limits would be to gain approval from their residents through override referendums.

The proposed state budget calls for a **reduction** in each school district's revenue limit by 5.5 percent between this year (fiscal year 2011) and next (fiscal year 2012). The budget will also reduce general school aids to almost all districts. In those school districts where the reduction in aid is smaller than the mandated reduction in the revenue limit, school property taxes will have to be reduced. Only in districts where aid cuts are larger than the mandated reduction in the revenue limit would school districts be able to partially offset the impact of the state aid reduction with an increase in property tax levies.

Because the necessary data are not yet available, the Department of Public Instruction will not be able to calculate changes in general school aids under the Governor's budget proposal until July 1, 2011. As the calculation of revenue limits for 2011-12 require data on 2011 enrollments, these calculations will not be completed until the fall.

The purpose of this paper is to provide estimates of general school aid allocations and revenue limits for the 2011-12 academic year under provision of the proposed budget. By making these estimates available now, I am hopeful that they may contribute to the ongoing legislative debate on the budget.

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Estimating General School Aids

During the current fiscal year, the state is spending \$5.3 billion on general and categorical school aids. With school aids constituting 37.1 percent of the state's General Fund budget, they are by far the largest single item in the budget. General school aids, which make up about 88 percent of total aid, are distributed using a quite complex formula.¹ To calculate state aid allocations to each school district requires recent information on the per-pupil property tax base of each district (technically referred to as *equalized values*) and information on the spending per pupil financed through general aids and property taxes (technically referred to as *shared costs*). Because the data needed to calculate general aid for the 2011-12 school year are not yet available, my approach is to calculate state aid for fiscal year (FY) 2012 based on the assumption that the number of students, shared costs, and equalized values per pupil for all school districts remain unchanged from the values used in the calculation of actual fiscal year 2011 general aid.² Although the actual allocations for individual school districts will differ from my estimates, the general patterns of aid and revenue limits displayed in the tables below will present a reasonably accurate forecast of the results of the aid and revenue limit provisions in the Governor's proposed budget.

The simulation of general aid that underlies the estimates presented in this paper are based on the following provisions in the proposed budget:

- A reduction of general school aids by \$390,546,000 (8.4 percent) relative to net general aid in FY 2011
- The definition of a portion of general school aids known as *special adjustment aid* has been changed so that each school district's FY 2012 general aid allocation must be at least 90 percent of the previous year's general aid. Under previous law, this hold-harmless provision had been set at 85 percent of the previous year's aid.
- Milwaukee's enrollment for general aid purposes has been reduced by 1,300 to reflect the assumption (made in the Governor's budget) that enrollment in the Milwaukee Parental Choice Program will grow by 1,300 pupils in FY 2012
- Funding for the Milwaukee Charter Program will increase by \$4,520,000, and these increased payments will be offset by proportional reductions in each school district's general aid allocation.

¹ For a description of the formula, see Russ Kava and Layla Merrifield, *State Aid to School Districts*, Information Paper 26, Wisconsin Legislative Fiscal Bureau, Madison, WI: January 2011.

² My general aid simulations are similar to those conducted by the Wisconsin Legislative Fiscal Bureau (LFB) and published in a March 15, 2011 memorandum from Bob Lang, the Director of the LFB, to the members of the Wisconsin Legislature. The Lang memo is entitled "Hypothetical Illustrations of the General School Aid Provisions of the Governor's 2011-13 Budget Bill." The most important difference between my aid simulation and that of the LFB is that they simulated the FY 2011 aid allocation using the major provisions of the Governor's proposed budget, which meant that special adjustment aid was calculated relative to actual aid allocations in FY 2010. I calculate FY 2012 aid by calculating special adjustment aid on the basis of actual FY 2011 general aid allocations.

I have estimated revenue limits for FY 2012 under the assumption that the actual FY 2011 revenue limit for each district will be reduced by 5.5 percent and the *low-revenue ceiling* provision of the revenue limit legislation will be reduced from \$9,000 to \$8,900 for FY 2012.

The results of my simulations of general aid and revenue limits are summarized in three tables. In Table 1, Wisconsin's 424 school districts are organized into eight categories ranked by districts' equalized property value per student. Table 2 divides districts into one of seven types of locations. The location coding ranges from large and mid-sized cities (15 districts) to rural districts in locations quite remote from urban areas (100 districts). Finally, in Table 3, school districts are characterized by the percentage of their student body that is eligible for the federal Free and Reduced Price Lunch program. The seven categories range under 10 percent to over 60 percent.

The three tables are organized in a similar fashion. The leftmost column lists the number of Wisconsin's 424 school districts in each category followed by columns that display the number of students and percentage of students in each category. The next two columns list the average value of the reduction in the revenue limit per student and in general aid per student between FY 2011 and FY 2012 under provisions of the Governor's budget. The focus of the next two columns is on the 329 school districts that will have to reduce school property taxes because their revenue limits decline by more than their reductions in general aid. The first column lists the number of such districts, and the second column lists the average per student mandated property tax reduction among districts that must reduce property taxes. The two rightmost columns focus on the remaining 95 districts in which the size of their reductions in general aid exceeds the reductions in the size of their revenue limits. Although not required to raise property taxes, these districts could do so without a referendum. The average allowable increase is listed in the final column of each table.

Equalized Property Values

As illustrated in Table 1, seven districts have property wealth per student under \$250,000, while 21 districts have property wealth in excess of \$2,000,000 per student. As revenue limits tend to be higher in high-property value districts, the average reduction in revenue limits is generally larger for districts with higher levels of property wealth per student. The average revenue limit reduction is \$541 per student, meaning that, on average, school districts will have to reduce the total amount of money raised from property taxes and general school aids by this amount.

Most of general school aids are allocated using an equalization formula designed to reduce the impact of disparities in property values on the funding of public education. It is thus not surprising that the smallest per pupil reductions in state aid accrue to high property wealth school districts. The average reduction in state general aid is \$455 per pupil dollars, \$86 less than the average revenue limit reduction.

In 329 of the state's 424 school districts the reduction in general school aids under the Governor's budget proposal would be smaller than the reduction in each district's revenue limit. As a

result, unless voters choose to increase their revenue limit, local school districts will be forced to reduce property taxes. Assuming no successful referenda, school property taxes would need to be reduced by \$89.4 million, an average reduction of \$159 per student. The largest tax cuts would occur in high property wealth districts. In many districts these property tax reductions would occur even though the local school districts would be forced to reduce educational programs and increase class sizes. In the remaining 95 districts, where reductions in general aid are larger than revenue limit reductions, school boards would be able to raise property taxes without a referendum. In aggregate, property taxes in these districts could be raised by \$15.4 million, an average of \$52 per student.

School District Location

Table 2 classifies school districts by the type of community they serve. Although only 15 school districts serve midsize or large cities, these 15 school districts educate 30 percent of Wisconsin's public school students. Conversely, 252 school districts are classified as rural. Combined, these rural districts provide education for 23 percent of the state's students.

On average, school districts in suburban Milwaukee would face the largest reductions in revenue limits and the smallest declines in general aid. This spatial pattern of changes reflects that most suburban Milwaukee school districts enjoy substantially above-average per-pupil property wealth. Unless local voters approve raising the revenue limits, the average suburban Milwaukee school district would be required to decrease property taxes by \$271 per student. Although the majority of school districts serving small towns and rural areas will be required to decrease property taxes, 79 of the 95 school districts that would be allowed to increase school property taxes without referendums serve small towns or rural areas.

Poverty

According to the most recently available data (October 2010), 41.7 percent of public school students in Wisconsin are eligible for free and reduced price lunches. Eligibility for this federally funded program provides the best available measure of the proportion of each school district's students coming from economically disadvantaged families. The data show that in 95 of the state's school districts, more than half of enrolled students are eligible for free and reduced price lunches. Together these school districts educate nearly 30 percent of the state's public school students.

Although the average reduction in revenue limits does not vary substantially across districts classified by the percentage of students from poor families, the Governor's budget proposals would result in larger per-pupil reductions in general aid in districts with the highest levels of student poverty. The average general aid reduction would be \$279 per pupil in districts with fewer than 10 percent of pupils from poor families, and \$524 in school districts with more than 60 percent of students from poor families.

Mandated property tax reductions would be highest in both the school districts with the smallest incidence of poverty (less than 10 percent of students eligible for free and reduced price lunches) and those districts with the highest concentration of poverty (more than 60 percent). The average mandated property tax decrease would be \$187 per student in districts with 50 to 60 percent of students eligible and \$267 per student in districts with more than 60 percent eligible. Among school districts allowed to raise property taxes, the largest average increases would occur in districts with fewer than 20 percent of their students eligible for free and reduced price lunches.

Conclusions

To deal with Wisconsin's large budget gap for the 2011-13 biennium, Governor Walker executive budget includes proposals to reduce state-financed school aids and a provision to reduce each school district's revenue limit by 5.5 percent. As revenue limits are statutorily defined as the sum of general school aids and school property tax levies, any proposed change in general aids and revenue limits has direct implications for school property taxes and local school funding.

In this paper, I estimate general aids and revenue limits for the 2011-12 school year for each of the state's 424 school districts under the assumption that the Governor's school funding proposals are enacted. Although aid estimate for individual school districts will change when new data are available, the general pattern of final aid allocations should be similar to what is presented in the three tables in this report.

The results indicate that 329 of the state's 424 school districts will be required to reduce their property taxes in order to satisfy their revenue limits. These property tax reductions will further reduce the amount of resources available to school districts that also will be facing cuts in both general and categorical state aid. Sixty-five percent of the state's public school students are enrolled in districts that will have to reduce school property taxes. The only circumstance under which a tax reduction could be avoided would be if a majority of voters in a school district decided to raise their district's revenue limit.

Whether the Governor's school funding proposals pass the Legislature in their current form or not, nearly all school districts will face substantial challenges in financing their 2011-12 school year. Most school districts will save money through the reduced payments for employee retirement contributions and health care premiums mandated by provisions in the budget repair bill.³ On the other hand, reductions in state aid, possible cuts in federal education aid, and rising costs associated with other parts of their budget, especially for energy and fuel, are likely to outweigh compensation-related cost savings in many districts. Requirements that property tax levies be reduced will make it even more difficult for districts to maintain the quality of education they provide. While school districts that are allowed to raise property taxes have the ability to partial-

³ Although on-going litigation has delayed the implementation of the bill (Act 10), media reports suggest that in the event that the Act is successfully challenged in the courts, the Administration would seek to add the provisions contained in the budget repair bill to the regular biennial budget.

ly make up for cuts in school aid, these districts are generally those that would face the largest per-pupil cuts in state aid.

One possible way to eliminate the requirement that some school districts reduce school property taxes would be to amend the revenue limit legislation so that no school district would need to reduce its revenue limit by an amount greater than their reduction in general school aid. While such a provision would allow additional education spending by the majority of school districts, the data in Table 1 demonstrate that the largest increases in revenue limits would accrue to the property wealthiest school districts.

As demonstrated in Table 2, the Governor's budget proposals would result in the largest per students reductions in general aid to occur in school districts with the highest concentration of students from poor families. The most recent standardized tests administered by the Department of Public Instruction demonstrate that academic performance in Wisconsin is considerably lower among students from economically disadvantaged families compared to students from other families. Larger reductions in general aid to school districts with the highest concentration of poor children is likely to expand, rather than reduce, the existing achievement gap between students from economically disadvantaged and advantaged households.

One policy that would lead to smaller aid reductions in high poverty school districts would be to distribute general aid using a formula that includes *poverty weights*. Under such a system the existing equalization aid formula would remain unchanged except that each student who is eligible for FRPL would count for more than one student. Thus, with a poverty weight of 0.25, 100 students who are eligible for FRPL would count as 125 students in calculating the allocations of general aid. Poverty weights are used in many states to reflect the additional costs associated with providing a good education to students from low-income families. Their use in Wisconsin for the calculation of FY 2012 general aid would result in smaller aid reductions in school districts with a high proportion of students from economically disadvantaged families.

Table 1
Estimated School Funding Changes between Fiscal Years 2011 and 2012 Based on Provisions in 2011-13 Executive Budget
by Equalized Property Value per Student

Equalized Property Value per Student	Number of Districts	Number of Students	Percentage of Students	Average Change per Student		Mandated Property Tax Reductions*		Allowable Property Tax Increases**	
				Revenue Limit	General Aid	Number of School Districts	Average Reduction per Student	Number of School Districts	Average Increase per Student
Less than \$250,000	7	12,566	1.5%	-\$524	-\$369	5	\$231	2	\$136
\$250,000-\$324,999	26	23,776	2.8%	-527	-365	26	161	0	0
\$325,000-\$400,000	73	190,319	22.2%	-539	-513	69	80	4	37
\$400,000-\$499,999	99	227,481	26.5%	-531	-538	44	34	55	41
\$500,000-\$749,999	123	267,705	31.2%	-528	-492	89	89	34	82
\$750,000-\$999,999	40	89,749	10.5%	-582	-254	40	329	0	0
\$1,000,000-\$1,999,999	35	37,922	4.4%	-601	-68	35	533	0	0
\$2,000,000 and over	21	8,687	1.0%	-630	-13	21	617	0	0
Total	424	858,205	100.0%	-\$541	-\$455	329	\$159	95	\$52

*Average reductions calculated only for those school districts required to reduce property tax levies to meet revenue limits.

**Average reductions calculated only for those school districts allowed to increase property tax levies.

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

Table 2
Estimated School Funding Changes between Fiscal Years 2011 and 2012 Based on Provisions in 2011-13 Executive Budget
by Location of School Districts

Location of School District	Number of Districts	Number of Students	Percentage of Students	Average Change per Student		Mandated Property Tax Reductions *		Allowable Property Tax Increases **	
				Revenue Limit	General Aid	Number of School Districts	Average Reduction per Student	Number of School Districts	Average Increase per Student
Large or mid-sized city	15	258,256	30.1%	-\$555	-\$512	9	150	6	34
Suburban Milwaukee	39	117,894	13.7%	-591	-323	38	271	1	44
Suburbs of other cities	25	92,966	10.8%	-536	-481	16	88	9	29
Small town (Less than 10 miles from urbanized area)	30	66,344	7.7%	-489	-478	22	94	8	168
Small town (More than 10 miles from urbanized area)	63	127,265	14.8%	-514	-488	41	90	22	61
Rural (Less than 25 miles from urbanized area)	152	134,385	15.7%	-528	-452	118	123	34	59
Rural (More than 25 miles from urbanized area)	100	61,095	7.1%	-537	-345	85	248	15	53
Total	424	858,205	100.0%	-\$541	-\$455	329	\$159	95	\$52

*Average reductions calculated only for those school districts required to reduce property tax levies to meet revenue limits.

**Average reductions calculated only for those school districts allowed to increase property tax levies.

Source: Author's calculations using data from the Wisconsin Department of Public Instruction. Data on school district locations (locale codes) come from the National Center for Education Statistics.

Table 3

**Estimated School Funding Changes between Fiscal Years 2011 and 2012 Based on Provisions in 2011-13 Executive Budget
by Percentage of Students Eligible for Free and Reduced Price Lunch (FRPL)**

Percentage of Students Eligible for FRPL	Number of Districts	Number of Students	Percentage of Students	Average Change per Student		Mandated Property Tax Reductions*		Allowable Property Tax Increases**	
				Revenue Limit	General Aid	Number of School Districts	Average Reduction per Student	Number of School Districts	Average Increase per Student
Less than 10%	23	29,461	3.4%	-581	-\$279	21	\$316	2	\$100
10% to 20%	48	118,536	13.8%	-536	-402	38	205	10	161
20% to 30%	73	113,022	13.2%	-537	-456	52	118	21	43
30% to 40%	93	162,800	19.0%	-532	-467	71	135	22	57
40% to 50%	92	189,208	22.0%	-539	-490	70	97	22	45
50% to 60%	69	135,201	15.8%	-550	-420	58	187	11	32
Over 60%	26	109,977	12.8%	-548	-524	19	267	7	35
Total	424	858,205	100.0%	-\$541	-\$455	329	\$159	95	\$52

*Average reductions calculated only for those school districts required to reduce property tax levies to meet revenue limits.

**Average reductions calculated only for those school districts allowed to increase property tax levies.

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