

FOCUS

In brief

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Facing mounting deficits, the 2009-11 state budget cut state aid to schools for the first time in modern memory. It also tightened the state's revenue limits on local school districts. The result will be a budget squeeze for many schools with average, allowable revenue growth of about 2%. The result for taxpayers will be an average potential school tax hike that could reach 7.8%. With repeal of state controls on school compensation ("QEO"), tax increases could accelerate in future years, if 1988-92 is at all predictive.

Capitol notes

■ State general fund tax collections for fiscal year 2008-09 totalled \$12.115 billion (b), according to new figures from the Department of Revenue. Initial estimates at the time of budget enactment in October 2007 were \$13.626b.

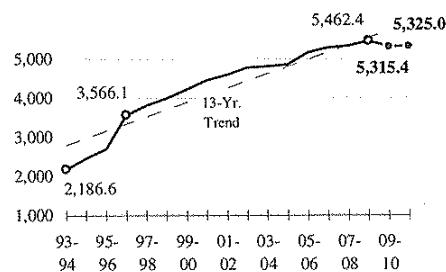
■ The state transportation fund ended 2008-09 with a projected deficit of \$49.1 million, according to the Legislative Fiscal Bureau. However, state transportation officials submitted a plan to the legislature to close the gap.

■ The Minnesota Taxpayers Association has ranked total teacher compensation per pupil, adjusted for cost of living. Minnesota ranked 13th in the U.S. Illinois was 19th; Iowa, 24th; Michigan, 23rd; and Wisconsin, 8th. New York, Wyoming, and Vermont led the country. MTA used 2007 Census Bureau figures with cost-of-living data from the Missouri Economic Research and Information Center.

State budget woes mean school, taxpayer problems

Glistening corridors and new backpacks signal another new school year for Wisconsin students. It is also a new year for the state's 425 school districts—but a very different one than years past. Facing deficits in the billions, the state is cutting school aid for the first time in modern memory, while tightening the revenue limits it places on districts. The result will be, in many areas, unusually tight budgets and large school tax increases.

Longtime School Aid Growth Sidetracked
State School Aid (\$m), 1993-2011



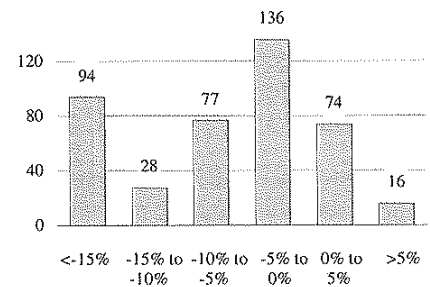
School aid reductions

State government spends more on school aid than any other program: 40% of the general fund budget. The appropriation has grown steadily—from \$2.19 billion (b) in 1993-94 to \$5.46b in 2008-09 (see graph above). During the mid- to late-1990s, annual increases averaged 5.0%. Even with recent state financial difficulties and cuts to other programs, aid grew an average of 2.3% per year since 2003.

With state revenue estimates down for 2009-11, this spring the governor and legislature looked to school aids for savings. The budget trimmed aid by 2.7% in 2009-10 and raised it by only 0.2% in 2010-11. The largest part of school aid—general aid—is down 2.9% this year and flat next year. However, because general aid is distributed by formula, changes vary greatly from district to district.

Of all districts, 94 will see aid drop 15% or more (see graph below). The five with the largest cuts are: North Lakeland, -100%; Swallow, -16.6%; Wisconsin Dells, -16.0%; Elcho, -15.7%; and Princeton, -15.4%. Districts with the largest losses tend to be "property wealthy," often with declining enrollment. At the other end of the spectrum, 90 districts are projected to receive more general aid, including 16 that will get at least 5% more.

Most Districts Losing State Aid
No. of Dist's by % Chg. in Gen'l Aid, 2009-10



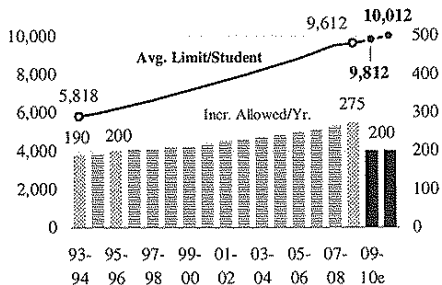
Revenue limits tightened

Further complicating school budgets this year is that the governor and legislature reduced the amount by which school districts could raise new revenue. Since 1993, the state has limited how much districts could increase the combined amount collected from state general aid and local property taxes. Initially, the limit was roughly tied to enrollment growth and inflation.

Last year, the state allowed districts to increase revenues by \$275 per student. For the next two years, however, the limit falls to \$200, the same as in 1995-96. Why the sudden drop in the allowable increase after years of continued growth? A lot of it has to do with lack of money and some preservation instinct. State legislative leaders knew that, with state aid reductions, school taxes were going to rise. They also knew that 2009

State Revenue Limits on Schools Tighten

Avg. Limit/Student (line) and Allowed Incr. (bars)



tax bills would arrive shortly before the start of the 2010 election year. Restricting the revenue increase prevents districts this fall from fully offsetting state aid cuts with local property tax increases.

Note that this does not mean the average revenue limit per student will be frozen. As the line in the above graph shows, the average revenue “cap” has grown from \$5,818 in 1993-94 to \$9,612 last year. And it will rise about 2% annually—to \$9,812 this year and to \$10,012 next year. By comparison, estimated inflation rates for 2009-11 are -1.5%, +2.4%, and +3.1%, respectively.

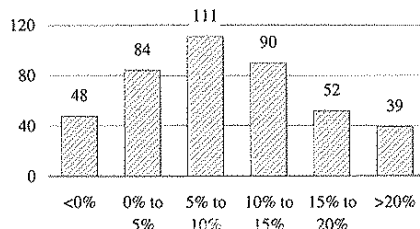
The revenue-limit story is even more complex than this. Suffice it to say that, because of other state-budget action, some low-spending districts that might otherwise expect to be exempted from the state caps will feel their impact. Ironically, among districts most affected by state budget and associated political problems are those that spend the least.

School tax hikes expected

From this discussion, it is clear that Wisconsin school finance is painfully complicated. The bottom-line question for the taxpayer, however, is rather simple: How much will my school property tax bill go up in December?

School Tax Increases Could Be Large

No. of Dist's by % Chg. in School Tax, 2009-10

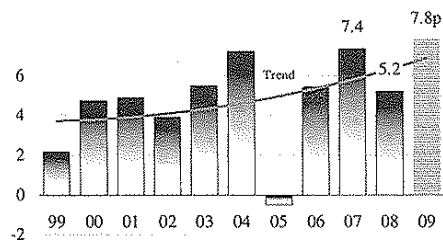


The answer depends on local conditions and school board decisions. But even with tightening state revenue limits, school levies are expected to increase more than in recent years. As the graph above shows, 181 districts face *potential* 2009-10 school tax hikes of 10% or more. Another 111 could have tax increases in the 5% to 10% range. Only 48 districts—about one in nine—are likely to cut property taxes this December.

What might temper tax increases is a relatively new development. Wary of even worse budget news in the years to come, some school boards are consciously choosing not to levy the maximum allowed by state revenue-limit law. Last year, 27 districts were at least 1% below their

A Decade of School Tax Changes

Annual % Chg. in School Levies (p = potential)



revenue cap and 10 were more than 10% under. District numbers are likely to grow this year.

Tax acceleration ahead?

Overall, the potential school tax increase for December 2009 could approach 7.8% statewide if all districts taxed to their revenue limit. This would be the decade's largest one-year increase (see graph above). The last time larger increases were recorded was in 1988-92, when tax increases accelerated from 8.1% in 1988 to 10.7% in 1992. The following year, the legislature enacted revenue limits and restricted growth in school compensation (the qualified economic offer, or QEO).

What happens to school taxes beyond this year is unclear. In the new state budget, the governor and legislature enacted one other major school finance change: They repealed the QEO. Whether we now return to 1988-92 and the double-digit tax increases of the pre-QEO period remains to be seen.