

Death by a Thousand Cuts

How Wisconsin's Revenue Limits Erode the Budgets of Public Schools

November 2005

Executive Summary:

This paper reports on a survey of Wisconsin school district superintendents, conducted by the Institute for Wisconsin's Future. Superintendents were asked to calculate the gap between the district budget that is permissible under revenue limits and what it would actually cost just to maintain programming from one school year to the next.

Survey responses were received from 129 districts, whose combined enrollment of well over 400,000 students is nearly half the state total. As reported by superintendents, the median growth in budgets allowed by revenue limits is 2.5% per year. The median growth in the cost of continuing programs is 4.2% per year. This leaves a typical deficit of 1.7% of each year's budget. Without referendum approval to exceed the revenue limit, this means the typical school district cuts 1.7% each year from a cost-to-continue budget. This amounts to nearly \$400,000 in yearly cuts for an average-size district of about 2,000 students, enough to cover the cost of a number of teachers.

These deficits have been compounding through a dozen years of revenue limits, and will continue building at least through the end of the current state budget, in mid-2007. At the rate of 1.7% cut each year, a high-school senior would have almost 20% fewer dollars in resource support than when she or he started kindergarten. As one superintendent put it, there is a "collision" under way between the conflicting demands both for quality education and for reduced funding, a collision that is hurting children in Wisconsin.

In brief: the growth permissible under revenue limits is generally less than the revenue growth needed just to maintain school programs from one year to the next. This built-in structural deficit is why most school districts must cut every year.

This serious structural problem in Wisconsin's school-finance system must be fixed in the next state budget, if our state is to have the educational infrastructure essential for a prosperous 21st century.



INSTITUTE FOR WISCONSIN'S FUTURE

policy research in the public interest

Background:

Wisconsin's school revenue limits (also known as caps) were created by the Legislature in 1993. They restrict the amount of funds school districts can obtain through local property tax and state general aid. Regardless of need or local decisions, it is illegal to exceed the revenue cap unless authorized in a district-wide referendum.

Revenue caps let revenue grow based only on enrollment and/or inflation (Consumer Price Index-CPI). In effect, the caps freeze real per-pupil spending at 1993 levels. For the 2004-'05 school year, the cap allowed a revenue increase of \$241.01 per student for all districts. For the average-spending district, this amounted to 2.3% growth in revenue.

Because CPI inflation is lower than the inflation schools face — for such things as insurance, wages, fuel and textbooks — revenue limits don't provide adequate revenue growth. Revenue limits don't allow the funds needed to close achievement gaps, teach students with

special needs, or cover accelerating busing costs.

Revenue limits are especially harsh on districts with declining enrollment, because declining student rolls counter-act even modest increases in per-pupil revenue limits. This severely hurts declining-enrollment districts, which include more than 60% of all Wisconsin districts.

In short, the growth permissible under revenue limits is generally less than the revenue growth needed just to maintain school programs from one year to the next. This deficit is why most school districts must cut every year. Because the cost-to-continue exceeds revenue growth allowed by the caps, the only solution (other than referendum) is to cut staff and/or programs.

This structural deficit is well understood by school-finance insiders, but not by the public at large. Even those who understand it haven't known the statewide figures. Hence this survey, which is intended both to make the problem clear to the public and to put a number on the gap between allowable revenue growth and the cost-to-continue growth.

The Survey:

The survey was aimed at learning the typical gap between revenue growth allowed by the caps, and a district's cost-to-continue programming. If the cap allows 3% growth but 4% is needed to maintain programming, the gap is 1%.

The survey asked superintendents to indicate average annual growth in revenue limits and in the cost-to-continue. They were given the option of measuring over one year or several, and what methodology to use.

The survey was mailed to every superintendent. Replies came back from 129 districts (30% of the total),

whose combined enrollment exceeds 400,000 (more than 45% of state enrollment).

Those districts are a representative sample of all districts. They come from all 12 of the state's CESA regions for schools, and from 54 of Wisconsin's 72 counties. Median per-pupil revenue of \$10,583 among respondents is almost identical to the state average of \$10,589 in 2003-'04. Average enrollment decline during 2000-'04 was 0.2% among respondents, 0.3% statewide.

The answers are estimates, using different time frames and different methods. But taken as a group, they are a reliable measure of the impact of caps.

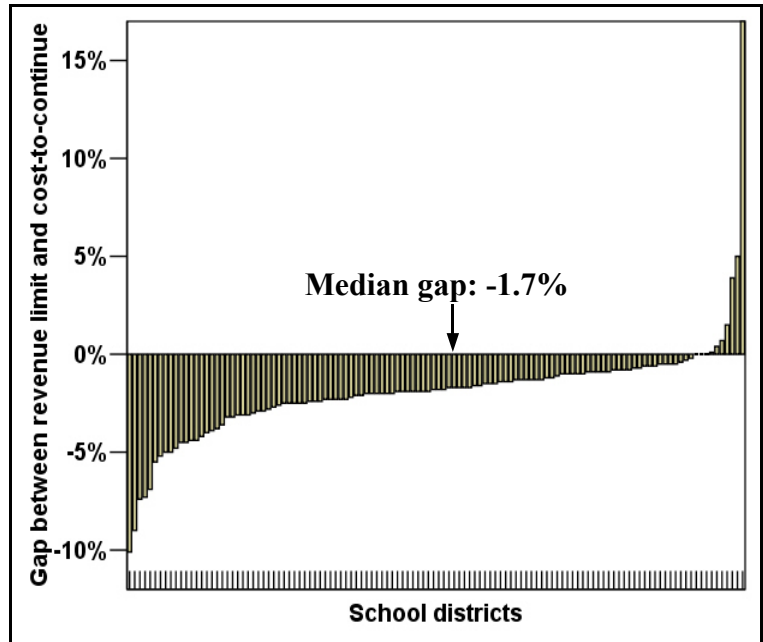
<u>Responding districts:</u>					
Adams-Friendship Area	Cornell	Grafton	Marinette	Phillips	Stratford
Albany	Crandon	Green Bay Area	Marshfield	Potosi	Superior
Altoona	Crivitz	Greendale	McFarland	Racine	Thorp
Amery	Cuba City	Hartford J1	Mellen	Random Lake	Three Lakes
Argyle	Cudahy	Hartland-Lakeside J3	Milwaukee	Rhineland	Tomahawk
Ashwaubenon	Cumberland	Highland	Mosinee	Rice Lake Area	Tri-County Area
Baldwin-Woodville	Deerfield Community	Holmen	Neillsville	Richmond	Twin Lakes
Baraboo	Delavan-Darien	Horicon	Nekoosa	River Ridge	Valders Area
Bayfield	Durand	Howards Grove	New Auburn	River Valley	Verona Area
Beecher-Dunbar-	East Troy Community	Independence	New Berlin	Riverdale	Waterford UHS
Pembine	Edgerton	Iola-Scandinavia	New Lisbon	Rubicon J6	Watertown
Beloit	Elkhart Lake-	Iowa-Grant	New London	Salem	Wausaukee Community
Birchwood	Glenbeulah	Janesville	Niagara	Sauk Prairie	Wausau
Boulder Junction J1	Elkhorn Area	Kenosha	North Crawford	Seymour Community	Wausaukee
Cameron	Elmbrook	Kickapoo Area	North Lake	Shawano-Gresham	Wautoma Area
Cassville	Erin	Ladysmith-Hawkins	Northern Ozaukee	Shell Lake	West Bend
Cedar Grove-Belgium	Fennimore Community	Lake Holcombe	Northland Pines	Shiocton	Wheatland J1
Chetek	Flambeau	Laona	Omro	Slinger	Whitefish Bay
Chippewa Falls Area	Fond du Lac	Linn J4	Oshkosh Area	Southern Door County	Whitewater
Clinton Community	Fox Point J2	Little Chute Area	Osseo-Fairchild	Stevens Point Area	Whitnall
Colby	Gibraltar Area	Loyal	Paris J1	Stockbridge	Woodruff
	Gilman	Madison Metropolitan	Pepin Area	Stoughton Area	Unknown

Results:

- The median revenue-limit increase was 2.5% per year;
- The median cost-to-continue increase was 4.2% per year;
- Leaving a gap equaling 1.7% of the annual budget.

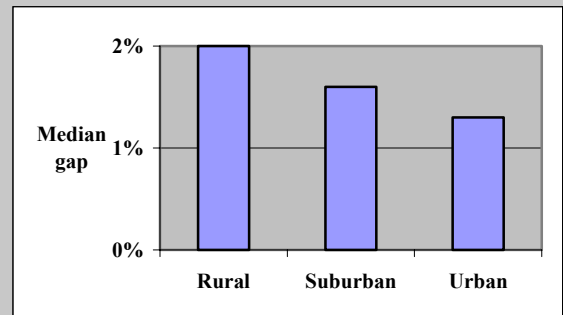
In other words, the typical school district in Wisconsin each year cuts 1.7% from a basic cost-to-continue budget.

For a district of 1,000 students, this is a cut of about \$170,000. For a district of 3,000 students, this is a cut of more than \$500,000 in staff, programming, purchases, maintenance, and/or training.



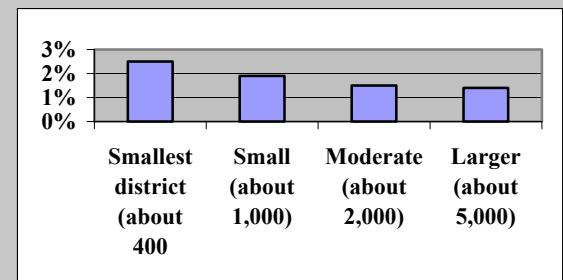
By geography:

Rural districts, in general, had larger gaps between revenue limits and cost-to-continue than urban or suburban: an average gap of 2.0% for rural districts, 1.6% for suburban districts, and 1.3% for urban districts.



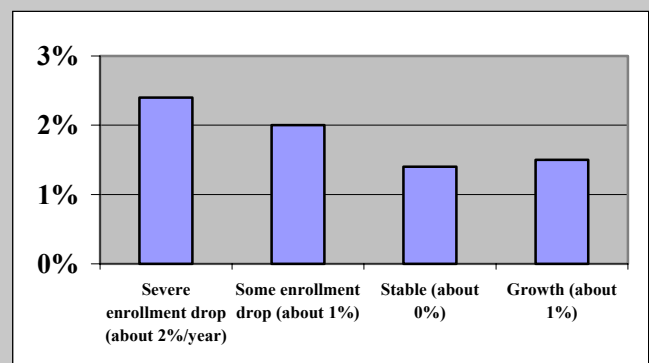
By district size:

Smaller districts, in general, had larger gaps between revenue limits and cost-to-continue than urban or suburban: a gap of 2.5% for the smallest districts (less than 400 students), 1.9% for slightly larger districts (close to 1,000 students), 1.5% for larger districts (about 2,000 students), and 1.4% for the largest districts (about 5,000 students).



By change in enrollment:

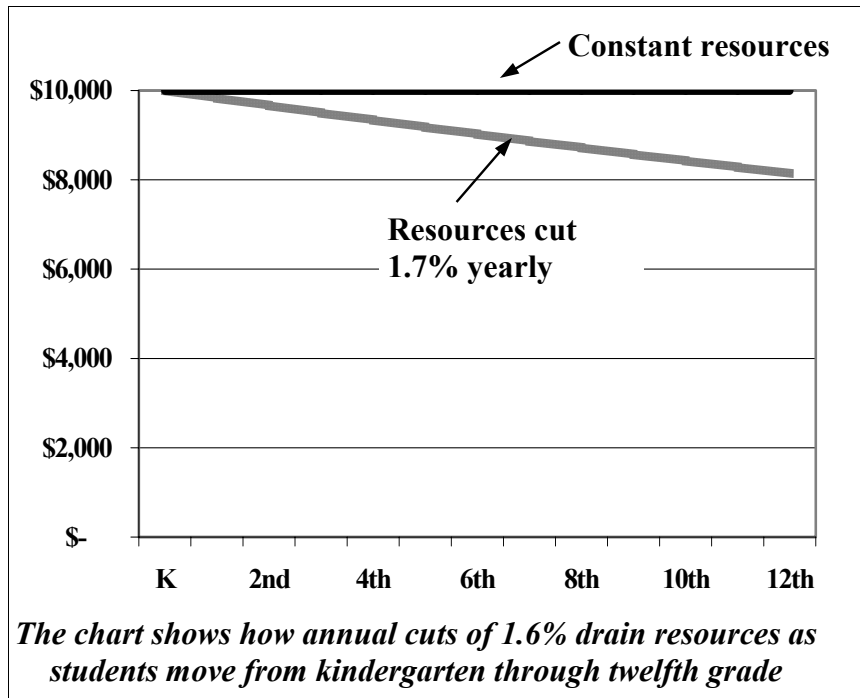
As one would expect, districts with the largest decline in enrollment (during 2000-'04) had the largest gaps: 2.4% for districts with large enrollment losses (about 9% over the 4-year period), 2.0% for district with more modest losses (about 3%), 1.4% for districts with modest enrollment growth (about 1%), and 1.5% for districts with the largest enrollment growth (about 5%).



It's the cumulative effects that matter

Revenue limits have been in effect for a dozen years, causing yearly budget gaps in almost all school districts. These structural deficits are the result of the revenue growth permissible under law being less than the increase in spending needed just to continue one year's programming to the next.

As measured in this survey, the typical gap for Wisconsin school districts is about 1.7%. The chart shows the impact over time of a yearly cut of 1.7% in a cost-to-continue budget. Imagine a 5-year-old who enters a kindergarten which is supplied with \$10,000 worth of resources for him or her. If revenue limits force a 1.7% cut each year, by the time the child graduates from high school, the resources have shrunk to barely \$8,000.



Wisconsin needs fundamental school-finance reform

Under Wisconsin's current system for funding public schools, almost every school district in the state will have a yearly negative gap between revenue-limit growth and cost-to-continue growth. For one thing, revenue limits (determined by the Consumer Price Index) grow at less than the 3.8% minimum increase in staff pay and benefits districts must give under the Qualified Economic Offer (QEO) law. Also, most of Wisconsin's 426 districts have declining enrollment, which holds down revenue limits. This reduces schools' capacity to close achievement gaps and satisfy increasingly rigorous state and federal standards, which require schools to have more, not less, resources.

The Institute for Wisconsin's Future (IWF) is a non-profit, non-partisan statewide policy research and community education center. IWF is a partner in the Wisconsin Alliance for Excellent Schools (WAES), a statewide coalition working to replace the present school-finance system with one based on adequacy principles.

For more information, see the IWF web site (www.wisconsinsfuture.org) or contact Research Director Jack Norman at 414-384-9094 or jnorman@wisconsinsfuture.org.



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