

School Finance Network Funding Proposal
January 2009

Special thanks to Andrew Reschovsky, University of Wisconsin-Madison,
and
The Lincoln Institute of Land Policy, Cambridge MA,
for technical advice and resources to help cost
the School Finance Network proposal

School Finance Network Proposal Overview

Every child should have the opportunity to receive an excellent education, and Wisconsin has a long tradition of investing in great public schools. To keep this tradition strong, we need a more effective system of school funding. The School Finance Network is a statewide coalition committed to strengthening our system of school funding. After 15 years of capped funding, we need to protect programs across the board, and restore opportunities in art, music and foreign language, as well as business and vocational and technical training. We need a better system of school funding to avoid making more cuts in vital programs and services for children.

The School Finance Network has a plan that increases financial accountability by ensuring money goes to those students who need it most—such as those with disabilities and special needs. With new investments, Wisconsin can improve programs in reading and math and prevent the loss of top quality teachers, helping public schools to strengthen communities around the state.

School funding must meet student costs

Current law is based on a formula unrelated to the cost of educating students. Targeted (categorical) aid has remained almost unchanged for 15 years despite significant increases in the number of high-cost students. The proposal increases categorical aid for children with disabilities and special needs, for small rural school districts, and also for low-income students. This will make the system more equitable and increase opportunities for all students.

School funding must meet the cost of living

The state's current funding system does not allow schools to keep up with real-world costs, such as those for utilities and transportation. The proposal reconfigures how annual increases are calculated. Per pupil increases would have moved from \$264 to \$350 in 2007-08, with future increases tied to overall statewide economic growth measured by personal income. The new system is more effective in aligning revenue with costs and it will allow public schools to maintain and restore important course offerings.

Controlling property taxes

The plan increases state aid and expands homestead property tax relief, generating lower property taxes and providing tax relief for homeowners.

Analysis of the plan

An analysis by Andrew Reschovsky, University of Wisconsin-Madison, with resources provided by The Lincoln Institute of Land Policy, Cambridge, MA, shows that all districts benefit from the plan, and that it also is highly effective in delivering the most relief to districts most in need.

Paying for the plan

The state Legislature has the responsibility to fully fund public education, as mandated by the state's Constitution. There are many funding options for state leaders to improve our school funding system, including closing corporate tax loopholes, eliminating tax breaks and subsidies for companies that do not keep jobs in Wisconsin, modernizing the sales tax, and adopting strategies that increase federal support for the state.

School Finance Network member groups: American Federation of Teachers–Wisconsin, Fair Aid Coalition, School Administrators Alliance, Southeastern Wisconsin Schools Alliance, Wisconsin Alliance for Excellent Schools, Wisconsin Association of School Boards, Wisconsin Association of School District Administrators, Wisconsin Education Association Council and the Wisconsin PTA.

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The Proposal

This proposal to reform Wisconsin's system of school funding is organized into eight sections on: revenue controls, equalized aid, categorical aid, innovations and increased efficiencies, the Qualified Economic Offer, school levy, property tax relief, and accountability. The School Finance Network (SFN) believes that some of the reforms suggested herein will require a five-year phase-in period. The plan thus proposes incremental instead of one-time change.

Ultimately the SFN believes that revenue controls undermine the state's long history of local control in schooling, are not aligned with educational goals and outcomes, and contain structural flaws that produce ongoing deficits in public education. Current political reality suggests, however, that in order to be viable, any proposal to reform school funding will have to include at least a variation of the revenue control system.

When revenue controls were enacted in 1993-94, per pupil expenditures were locked in place. This starting point was the result of local practices that often reflected the property values of different communities. In subsequent years, after creating a permanent base for each district, the Legislature tied annual per pupil increases to the Consumer Price Index. This measure is unrelated to the cost of educating students or to the ability of citizens to support schooling. Proposals below address these flaws by (1) tying revenue controls to income growth, and (2) increasing categorical aid for services where legally mandated costs rose more than legislated revenue increases. The proposal also introduces ideas to help run the schools more efficiently.

I. Revenue Control Modifications

The SFN proposes to tie increases in school funding to personal income, which measures the state's ability to pay, and to provide additional relief to declining enrollment districts. Although not a direct measure of school district cost—the exact measure of which is still subject to academic debate—personal income is a good indicator of state economic growth and its ability to maintain funding.

Annual per pupil adjustment

- Annual increases in per pupil spending under revenue controls will be equal to the growth rate of the five-year rolling average of Wisconsin's total personal income multiplied by the amount of the secondary cost ceiling, as defined below, used for allocating equalization aid in the previous fiscal year.¹

¹ For purposes of defining the annual per pupil revenue adjustment, the personal income growth rate would be the percentage difference between the 2002 to 2006 average, for example, and the 2003 to 2007 average of Wisconsin personal income, where calendar year Wisconsin personal income data come from the U.S. Bureau of Economic Analysis.

Declining enrollment relief

- For any one-year loss in revenue due to declining enrollment, districts should be held harmless on 100% of that loss in the first year, 75% of that loss in the second year, and 50% of that loss in the third year, thus spreading out that revenue loss over a three-year period.

Low revenue relief

- Henceforth, the low revenue “ceiling” will be defined to be equal to the “secondary cost ceiling” (defined below) used in the previous year’s allocation of equalization aid.
- However, because districts will be granted new revenue authority under this proposal, low revenue relief will be temporarily suspended for the time period during which the new funding system is phased in.

Summer school

- For purposes of calculating the three-year rolling average pupil count under revenue controls, current law allows only a 0.4 weighting for summer school students. These students should be weighted 1.0 for purposes of calculating the three-year rolling average, with the method of calculating summer school FTE left intact. Under this change, the revenue limit adjustment allowed for summer school students would be calculated the same way that FTE is calculated on summer school students for aid purposes.

II. Equalization Aid

From a tax equity standpoint, the distributive nature of Wisconsin’s equalization formula is generally sound. However, the SFN believes that the “low revenue ceiling,” used to establish a per pupil floor in revenue control calculations below which no district can fall, and the secondary cost ceiling in the equalized aid formula should be directly aligned. This policy change will provide an incentive for low revenue districts to increase spending because they will be fully aided, while simultaneously preventing any district from suffering negative tertiary consequences for increasing spending to this amount.

- In the first year, change the secondary cost ceiling to 100% of the prior-year statewide shared cost per member. If the SFN proposals had been enacted for the 2006-07 school year, the secondary cost ceiling would have been \$9,169.
- After the first year, the recalculated secondary cost ceiling will increase annually at a rate of growth equal to the growth of the five-year rolling average of Wisconsin total personal income. For purposes of the revenue limits the “low-revenue ceiling” would be set equal to the value of the secondary cost ceiling. Change to the new secondary ceiling, should the Legislature so determine, could be phased-in over a two- or three-year period.

- During the first two years when the secondary cost ceiling is raised, all districts are to be held harmless, receiving no less general aid per pupil than they would have received in the year prior to the adoption of the SFN proposal.
- Establish by statute a minimum two-thirds funding obligation for the state by second year of the plan.
- For the Milwaukee Public Schools, the state will assume 75% of the cost of the Milwaukee voucher program, and MPS 25%. In order to receive state tax dollars, voucher schools must meet the same standards as public schools for statewide testing and accountability, and for teacher and administrator qualifications and background checks.

III. Categorical Aid

To prevent permanent, ongoing shortfalls in funding, the SFN proposal increases categorical aid in important areas, three of which are specifically addressed in the Supreme Court's *Vincent v. Voight* school funding decision. These proposals require sum sufficient allocations.

Low-income students

- The most vexing problem facing education today is enduring low levels of achievement by low-income students. Because Wisconsin has a significant achievement gap, extra funds are needed for remediation. In the first year, aid will be disbursed to school districts in block grant fashion, based upon the number of low-income students per district.
- In each subsequent year, school districts must then use the money to fund specific, locally determined strategies designed to close the achievement gap. Such programs might include extended year and extended day schooling, tutoring, mentoring and instructional coaches, new reading programs, summer school, class size reduction, specifically aligned professional development, and school-community outreach. Districts, in other words, can adopt programs they believe will work best in their school buildings.
- Provide categorical aid of up to \$400 per student for students in grades 4K-12 who are eligible for subsidized (free or reduced) lunch in year one of the plan, but who are not covered under the SAGE program. The grant per student will be phased in over a five-year period in \$400 increments, from \$400 in year one to \$2,000 in year five. After year five, the \$2,000 grant will be indexed to increases in the cost of living, measured using the Consumer Price Index.
- Aid will reimburse only actual costs of programs and services undertaken to address the achievement gap at all grade levels.

SAGE

- As a result of low-income aid, no district shall receive less funding in total than it receives for its SAGE program in any given year, and no district shall receive less funding per pupil for any individual SAGE student than it receives in any given year.
- Increase the annual SAGE per pupil amount of \$2,250 by inflation each year starting in year five, the same year that low-income aid begins inflationary adjustments.
- For K-3 funding, districts must choose either SAGE or low-income aid, but cannot receive both at the same time for the same students. School districts, however, could run SAGE in K-3, while also receiving poverty aid for students in grades 4 and 5 at the elementary level, and for all low-income students in higher grades as well.

Special education

All current “aidable” special education costs will be sum-sufficient and reimbursed at 33%.

- High-cost special needs reimbursements will be expanded to include 90% of all district costs above \$30,000 for any individual student. Districts will continue to receive full aid—both categorical and federal—on the first \$30,000 in per student expenses. High cost categorical aid above the \$30,000 threshold will be sum sufficient and will not be considered part of the 33% reimbursement rate for overall special education proposed above—this is to be a separate, standalone program.
- Implement special education programs and billing strategies that will help to bring in more federal dollars to Wisconsin schools.
- See Appendix A for discussion on whether or not current law meets the *Vincent* standard of “disproportionate numbers” for funding special education students.

English language learners

- Eligible costs for English language learners will be expanded to include all non-English speaking students. Actual district costs for remediation programs will be sum-sufficient and reimbursed at the rate of 33%.

Transportation

Schools are required to provide transportation to both public and private school students. Current funding comes out of the operating budget and competes with educational programs and services. Wisconsin should establish a separate, segregated pool of funding for transportation so that pupil transportation costs are outside of and no longer compete with instructional costs for school aids to the full extent they currently do.

- All current eligible statewide costs for transportation, which are disbursed through a graduated formula, will be sum sufficient and funded at 33% to provide districts that transport students the greatest distance proportionally more aid, using the current method of distribution. For purposes of costing this plan, the SFN model added a new tier to the current model with higher rates of reimbursement based on sparsity.

Viability for small rural schools

There are a number of small but necessary school districts in the state. These schools have inherent economic disadvantages. Small student populations can prevent districts from obtaining sufficient revenue for day-to-day structural costs. Small student populations also can prevent districts from offering the normal range of academic subjects found in other public schools. Aid for small rural districts should be enhanced with monies targeted to support educational programs:

- Provide categorical aid of \$300 per pupil for school districts of up to 725 students that have a population density of 10 students per square mile or less. The \$300 grant will be indexed to growth in the consumer price index.
- Remove the current poverty level criteria for sparsity aid.

Four-year-old kindergarten

- Students in 4K should be eligible for the full per pupil amount of the new low-income categorical aid, prorated by the amount of time spent in 4K programming.
- Grant monies should be provided for startup. The startup pool would cover the first two years of costs that would otherwise not be aided, inhibiting districts from initiating 4K programs.

Summer school

- A portion of the new categorical aid program for low-income students can also be used to fund summer school programs on a prorated basis, using the previously recommended calculation to calculate summer school FTE.

School security expenses

- Create a grant program for school security expenses of up to \$100 per pupil or \$40,000 per district, whichever is greater.

IV. Innovations and increased school efficiencies

The SFN identified a number of areas where school efficiencies could be improved, where existing revenue streams could be redirected, and where public policies could be improved.

State should become single negotiator for utilities

- With its aid obligation, the state purchases about 55% of all utility costs for Wisconsin school districts. The state should negotiate with utilities and bargain a significant high-volume discount. This proposal could save Wisconsinites millions in tax dollars each year—monies that could be redirected to the classroom.

Consider similar pooling strategies for catastrophic insurance and pharmaceuticals

- The state also pays about 55% of all health insurance costs statewide and should consider ways to restructure purchasing in order to reduce costs. High-cost incidents, for example, are more easily shared by a larger pool. The cost per individual is reduced in larger pools, thereby reducing overall insurance costs. The state could establish group catastrophic insurance for all Wisconsin school districts. The same logic applies to purchasing pharmaceuticals. The state could establish a statewide pool for purchasing drugs in order to reduce the cost to taxpayers. Soon after the new insurance pools are effectively established for school districts, catastrophic and pharmaceutical coverage could be expanded to include Wisconsin farmers and small businesses (and possibly to state and municipal employees).

Coordinate school, municipal and county social services

- Create a state-level coordinating board to investigate, plan, and oversee more efficient delivery of social services at the county, municipal, and school district levels.

Establish a commission on rural economic health, including school consolidation strategies, shared services, distance learning and other cooperative innovations

- Have a rural education commission, either new or re-established, examine the role of rural schools as community centers and local engines of economic growth. All rural community stakeholders, including local business leaders, should be represented. Investigate enrollment trends and how to sustain rural schools, including distance learning, shared services, and innovative re-organization strategies.

- Continue funding for consolidation and shared services feasibility studies and provide that only a consortium of two or more districts can apply to the DPI for such a grant.
- Amend the uniformity clause of the state Constitution so that when, through consolidation, all or a portion of a school district becomes part of another school district, the board of the amalgamated school district is allowed to annually establish a property tax for the new part of its jurisdiction that is different than the rate it uses elsewhere in the district. Provide a 12-year limit to any differentiation. Also, in cases where a new district is formed, the board may annually establish a differentiated property tax for those parts previously in different districts.

Consolidate categorical aids

- Identify which categorical aid programs fund language and language-related instruction and collapse those funds to supply revenue for the new ELL categorical aid program. Excluding SAGE, which should be left as a standalone program, identify which categorical aid programs relate to poverty and at-risk education. Collapse those funds to supply funding for the new poverty-based categorical aid.

Establish a commission to explore other cost savings

- The SFN recommends that other strategies be explored to reduce costs and improve school efficiencies. Areas to explore include: exempting school districts from the state motor fuels tax, modifying current requirements that districts provide cost-free busing for private schools, and capturing additional federal Medicaid money by changing billing practices.

V. Modify the QEO

- Modify the QEO so that increases in compensation are aligned with revenue controls, based on a five-year rolling average increase in Wisconsin's personal income.

VI. Make the school levy credit transparent

- Currently, school districts certify their tax levy in October and inform municipalities of the amount of taxes to be collected in November. The property tax bills sent out in December reflect the amount of taxes requested by the school district minus the school levy credit. The school levy credit is currently paid to municipalities or counties in July, and they then forward appropriate amounts to each district when making the final tax settlement in August.

- The SFN recommends a change in this process. The school levy credit should be treated as if it were state aid (it is not) and be paid directly to school districts in July. When determining the amount of property taxes to be certified in October, the Department of Revenue would advise each district of the amount of the school levy credit, by municipality, which would be reported as revenue by the district. The amount of property taxes to be certified by the district would therefore be reduced by the school levy credit. The actual payment of the school levy credit to school districts would take place in July, but would be reported as revenue for the prior fiscal year.
- Adoption of this process of distributing the school levy credit would allow taxpayers to recognize this credit directly when approving school district budgets at annual meetings, and the levy rate established by each district would better reflect the actual cost to the taxpayers. School districts would also benefit by increased cash flow due to the receipt of funds in July rather than August.

VII. Homestead property tax relief

- Increase eligibility for current Homestead Credit by raising the maximum allowable annual income by some to-be-determined amount, which would then increase regularly based on some to-be-determined inflation factor.
- Increase maximum size of credits available to individual filers, by some to-be-determined amount, which would then increase regularly based on some to-be-determined inflation factor.

VIII. Accountability

The SFN proposal seeks accountability on both the input (resources provided) and output (achievements and outcomes) sides of the school finance equation. Regarding inputs, increases in categorical funding come with strict fiscal accountability and will be targeted to specific programs based on actual district costs. Monies for low-income children, for example, must be spent to develop and/or maintain district programs to serve low-income children.

Regarding outputs, the SFN believes that allowing districts additional revenue limit flexibility to access resources will benefit student achievement and help maintain the historic quality of Wisconsin schools. Increased flexibility will allow school districts to maintain classes in business, vocational and technical training, art, music, and history, keeping intact experiences and opportunities for children that increase overall achievement and benefit them for life. It also will allow schools to better provide the 21st century skills students need to succeed in the global economy. This outcome—maintaining educational opportunities for all children—is critical to the state’s overall economic growth as well as to the lives of individual children.

The SFN further believes that although standardized test scores are a necessary part of assessment, test scores alone are an imperfect measure of school success and that school success must be based on multiple measures. These measures might include, for example, graduation rates, performance standards such as speaking and writing, community service (service learning), and the successful achievement of career pathways for students.

Finally, the SFN recommends that, *after five years of implementation, the state Legislature authorize a comprehensive study of the effects of this plan on the overall quality of education in Wisconsin, including both inputs and outputs.* On the input side, analysis should include whether or not school districts with students that are more costly to educate were provided more resources than districts with less costly student populations, a determination that is fundamental to meeting the needs and improving the achievement level of all students. On the outputs side, in addition to standardized test scores, the study should examine goals and outcomes that a democratic society upholds for public education in order to prepare students for life beyond high school, such as those reflected in the paragraph above, including post-secondary education.

APPENDIX A

Disproportionate Populations in Wisconsin's Educational Standard

In *Vincent v. Voight*, the Wisconsin Supreme Court ruled that: "Wisconsin students have a fundamental right to an equal opportunity for a sound basic education. An equal opportunity for a sound basic education is one that will equip students for their roles as citizens and enable them to succeed economically and professionally. . . . An equal opportunity for a sound basic education acknowledges that students are not fungible *and takes into account districts with disproportionate numbers of disabled students, economically disadvantaged students, and students with limited English language skills.*"

Current law treats all districts the same when it comes to special needs funding, regardless of the percentage of disabled and special education students a district may have. This leaves open the possibility that the above standard is not being met by the state.

Part of the problem is that the terms "disproportionate numbers" and "takes into account" are not well defined. This issue could be resolved if a clear and precise definition of both phrases was rendered. The SFN calls for the appropriate body, whether the Department of Public Instruction or the Legislature, to clarify this language in order to determine whether or not Wisconsin's system of school funding meets the *Vincent* standard. The SFN believes that under the current funding system, there are disproportionate effects on school districts that have higher costs for special education.

The table below, for example, shows the effects of special education costs under current law, which includes no adjustment for the proportion of special students taught by each district—those districts with greater numbers of special education students have their finances more adversely affected.

Effects of Disproportionate Numbers of Special Education Students

	Low Count District	Average Count District	High Count District
Number of Students	100	100	100
Per Pupil Cost	\$10,000	\$10,000	\$10,000
District Budget	\$1,000,000	\$1,000,000	\$1,000,000
Number of Disabled Students	4	14	24
Special Ed Cost/Pupil	\$6,000	\$6,000	\$6,000
District's Special Ed Cost	\$24,000	\$84,000	\$144,000
Categorical Aid (one-third of cost)	\$8,000	\$28,000	\$48,000
Special Ed Cost for District (Cost <i>minus</i> Cat Aid)	\$16,000	\$56,000	\$96,000
Remaining District Budget	\$984,000	\$944,000	\$904,000
Remaining Budget Per Pupil	\$9,840	\$9,440	\$9,040

Note: In this scenario, the High Count District is more adversely affected than other districts even when categorical aid is taken into account. It has less to spend per pupil after special costs are counted— adversely affecting all students in that district.

The same scenario occurs when the average cost per special education student is higher in one district than another when the number of special education students is the same in each. Ultimately, it is disproportionate total costs for special education per district that create the adverse fiscal effect, which result from the combination of per student cost and the number of students.