

Southeastern Wisconsin Schools Alliance

Property Tax Freeze

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The Southeastern Wisconsin Schools Alliance is a coalition of public school districts in southeastern Wisconsin formed to study educational issues and respond to policy decisions that affect public education.

Background Information

School districts in Wisconsin have been working in a tax-controlled or “freeze” environment since 1993. In the last legislative session, state lawmakers proposed a statewide property tax freeze that was never enacted. It is likely that in the new legislative session, a statewide property tax freeze will again be proposed and debated.

A property tax freeze can have several versions - it might insist on no cost roll-ups, be tied to some type of price index increase, or be tied to population increase. The impact of a freeze on schools will depend on what the proposed property tax freeze entails. Reacting to a growing concern from Wisconsin taxpayers that their property taxes were too high, made significant changes to school funding.

Since public schools have long been supported by local property taxes, legislators tied property tax relief to school funding at the state level. Revenue caps were put in place to slow the growth of school spending. This spending formula tied growth in school budgets to a three-year rolling average of student enrollment and a cost of living adjustment (per pupil adjustment). In addition to capping school spending, legislators created a qualified economic offer (QEO) formula that established a base for teacher negotiated salary and benefit packages. If the QEO is offered in contract negotiations, then arbitration also is avoided. The QEO essentially established 3.8% as the minimum offer to teachers (salary and benefits), but also required school districts to maintain existing benefit packages. At the time this was implemented, Wisconsin teachers’ average salary was approximately 15th highest in the nation. There was growing discontent with the state arbitration in teacher contract negotiation settlements. Once the spending or “revenue cap” and teacher salary cap were put in place, the state enacted a major property tax relief measure by assuming approximately two-thirds of the cost of school funding, allowing most homeowners to see significant drops in their property taxes. This formula remains in place today, and has been the fiscal environment in which school districts have operated under for more than ten years.

Since 1993, the impact of this major state initiative has played out in various ways. Local property taxes, since the initial decrease, have steadily grown (but by a predictable formula) since the revenue cap allows for a yearly adjustment along with accommodating enrollment increases. Referendums to allow for local spending above the revenue caps and for building initiatives have had mixed success. Once passed under the state’s two thirds-funding promise, referenda account for increased local taxing, and also increase the amount of funding committed by the state. In the last state budget, due to a downturn in national and state economic conditions along with a state budget with a structural deficit, the two-thirds funding commitment from the state ended, thereby shifting costs back to local communities.

Key Issues

Wisconsin schools have operated under a revenue cap for over ten years. The impact of revenue caps on school districts has varied depending on the demographics of the district. For school districts in growing communities with new development, it has expanded their revenue, but the actual growth in student population in the first year is not fully accounted for until three years after their initial enrollment. These districts have had to manage change carefully, and when additional classroom space was required, they were required to go to the public to request increased spending through a referendum. School districts in rural and urban areas where population demographics saw a decline in public school-age children, needed to annually reduce budgets because the revenue cap is tied to enrollment. Some school districts have been reducing their operating budgets for over ten years. Several factors have impacted all school districts, exerting pressure on the cost of educating students.

1. **National Education Initiatives:** The No Child Left Behind (NCLB) legislation, calls for increased school initiatives and accountability to improve education and close the achievement gap. This requires more resources to accomplish. A state agenda reducing resources available to educate students is at odds with the national agenda, state and local initiatives to create opportunities for all students.
2. **Relationship Between Revenue Cap and QEO:** While the per pupil adjustment (approximately 2.1%) is applied to the three-year average enrollment count, the QEO, accounts for a 3.8% increase annually on approximately 80 percent of a school's operating budget. Most school districts in Wisconsin have a stable or declining enrollment. The QEO increase required by law to avoid arbitration creates a gap that requires cutting programs or staff to accommodate the QEO increase. *A reduction in annual increases in the revenue cap formula does not create a status quo environment. It will require reductions in programs.*
3. **Increasing School Populations with Special Needs/ Increasing Expectations:** Wisconsin schools are serving a population of children with increasingly severe disabilities and special education needs. These costs are rising, but the associated funding from the state and from the federal government under IDEA has not followed. The shift from federal funding to the state has increasingly been shifted to the local taxpayers and school districts. Our school children are becoming more impoverished, more minority, and more limited English proficient, creating greater challenges and requiring schools to provide more special services. Expectations for services have also changed, with growing research that early childhood education is a significant factor in academic achievement, along with smaller class sizes. All of these factors have created increased demands and additional costs to schools. While striving to serve these special needs, Wisconsin needs to maintain its place in the top tier in the nation for graduation rates and academic achievement. This is vital to the long-term economic viability and development of the state.
4. **Health Care Costs:** Rising health care costs have affected personnel costs in all Wisconsin school districts. In the metropolitan Milwaukee area, health care costs are estimated to be 55% greater than the rest of the Midwest. This, under current bargaining laws, has channeled much of the potential teacher pay increases into maintaining benefits and away from salaries. Bargaining under the current system has been protracted and has undercut morale in an industry driven by the quality of its workforce.

5. **Constitutional Obligation to Education:** In Vincent v. Voight, the most recent challenge to the constitutionality of the state school funding formula, the state supreme court upheld the funding formula, but stated “Wisconsin students have a fundamental right to an equal opportunity for a sound basic education...one that will equip students for their roles as citizens and enable them to succeed economically and personally...An equal opportunity for a sound basic education...takes into account districts with disproportionate numbers of disabled students, economically disadvantaged students, and students with limited English language skills.” To address this concern under a property tax freeze may require additional state resources, requiring the legislature to prioritize education over non-constitutionally required services such as highways, health care and/or prisons.

Recommendations

In order to continue to provide high quality education:

- Recognize that public schools have been operating under a “property tax freeze” model for over ten years. Any property tax freeze initiative also needs to recognize that school costs are based on different goods and services than the Consumer Price Index.
- Create incentives to school districts to form consortiums or consolidate services where efficiencies will create savings and improve service delivery.
- Provide school districts with relief regarding increased health insurance costs.
- Provide balance between the QEO and the revenue cap per pupil adjustment, or allow for greater local flexibility in contract negotiations.
- Increase special education funding to the level necessary to meet state and federal mandates. This will shift the costs away from the local property tax.
- Repeal unfunded mandates; create greater local control in determining delivery of educational services.