

The Wisconsin Policy Research Institute

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Understanding School Finance in Wisconsin: A Primer



By Michael Ford

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Through original research and analysis and through public opinion polling, the institute's work will focus on such issue arenas as state and local government tax policy and spending and related program accountability, consequences and effectiveness. It will also focus on health care policy and service delivery; education; transportation and economic development; welfare and social services; and other issues currently or likely to significantly impact the quality of life and future of the state.

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President's Notes

Few concepts are more important to a functioning democracy than openness and transparency. We need to see our government work, and we need to understand why it works the way it does. While we cannot hope to fully understand everything about government, we need to understand the most significant issues.

Transparency is threatened not only by the backroom deal but by a complexity that makes it difficult — if not impossible — to understand certain programs. Wisconsin state government, in spite of its reputation for openness, comes up short on the transparency scale in a major way. The state allocates more taxpayer money to K-12 education (\$5.4 billion) than anything else, yet school finance in Wisconsin is complex to the point of being nearly impenetrable. The complexity of school finance was on full display in 2012 when the Madison School District — the state's second largest — began preparing its annual budget assuming state aids would be cut by \$800,000. Yet when the accountants at the state Department of Public Instruction ultimately sorted through all of the variables, Madison was pleased to learn that state aids would not decrease but instead would increase by \$11 million. School aids had proven simply too complicated for the budget analysts in Madison schools to predict with any accuracy.

We are nearing the point at which the way state aids are allocated to schools is simply too complicated for the average citizen to understand. If that's the case, how can citizens be expected to hold elected officials accountable? How can they influence the process? There is clearly a need for a layperson's guide to school finance.

To write a guide to Wisconsin's school finance system, we turned to WPRI research director Mike Ford. He is among a small group of individuals who not only understands the ins and outs of school finance, but can also explain it to the average citizen. In this primer, Ford not only explains the key features of school finance, he does so in the context of important policies, including property tax relief, tax base equalization, and state and local control. As Ford unravels the complexities, between the lines you will see how decades of Wisconsin's political battles have been translated into the fine points of school finance.

There is no good defense for the complexity of Wisconsin's school finance system. Wisconsin's schools and taxpayers are ill-served by the fog of intricacy that shrouds school finance. It is a complexity that serves no one other than insiders and lobbyists. By allowing average citizens to better understand school finance, Mike Ford's primer enables all of us to intelligently follow the activity in the Capitol and ultimately to have a shot at affecting the way the system functions.



George Lightbourn

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I. Introduction

What This Document Intends to Accomplish

The Wisconsin Constitution guarantees all Wisconsin children between the ages of 4 and 20 a free education that is as uniform as possible.¹ The state Constitution also requires that every state town and city establish an “annual school tax” that supports local public schools.² These two provisions serve as the basis for an often-complicated system that delivers the base public funding for the education of Wisconsin children.

The following report is not a proposal or call for legislative action, but rather an effort to document and explain the key concepts and terms underlying school finance in Wisconsin as well as the challenges the state faces in funding an evolving system of public education. Accordingly, the Wisconsin Policy Research Institute takes no position, nor does it advocate for any specific changes to the way Wisconsin funds its K-12 education. The overarching purpose of this report is to inform policy discussion and make the topic of education finance accessible to both policymakers and the greater public.

A variety of primary and secondary sources are used and cited so that the reader will know where to go to find additional materials if desired. Sources of information include:

- Wisconsin state statutes
- The nonpartisan Wisconsin Legislative Fiscal Bureau
- The Wisconsin Department of Public Instruction
- The National Center for Education Statistics
- The Wisconsin Legislative Reference Bureau

Any information obtained through personal interviews and inquiries or original research by WPRI is cited as such.

The report consists of seven sections, including this introduction and the conclusion, plus three appendices. The additional five topic sections are:

2. The Basics. This section will define and explain the key concepts involving the funding of K-12 education in Wisconsin. The reader will complete this section with an understanding of the jargon of school finance.

3. Revenues and Allocation. This section will review the types of funds that Wisconsin schools receive, the amount of funds that Wisconsin schools receive and the

source of funds that Wisconsin schools receive. The reader will complete this section with a clear picture of the size, scope and nature of the public investment being made in Wisconsin schools.

4. Process and Timeline. This section will explain how the level of funding to districts is determined, as well as the timing of that determination. The reader will complete this section with a basic understanding of why school districts receive the funds they do.

5. School Choice Programs. Not all publicly funded education in Wisconsin is in traditional public schools. This section will explain the ways school choice programs, including vouchers, charter schools, virtual schools, open enrollment and the Chapter 220 racial integration program are funded. The reader will complete this section with a clear knowledge of the relationship between the funding of traditional public school students and students using choice programs.

6. What Happens When...? Perhaps the most important policy question related to school finance is the fiscal impact on districts and programs when money is moved around. The reader will complete this section with a basic understanding of what happens when the fundamentals of school finance in Wisconsin are manipulated.

Appendices I and II. These include a detailed explanation of the equalization aid formula and a listing and timeline of key financial forms submitted by school districts to the Wisconsin Department of Public Instruction.

Appendix III - Defining Key Terms. The definitions of key terms seek to demystify the language of education finance in Wisconsin. Understanding these terms is crucial to making sense of the equalization aid concept and other key components of Wisconsin’s K-12 finance system.

The Basic Attributes and Goal of Wisconsin Education Finance

A fundamental tension between state and local control lies at the heart of Wisconsin's school finance system. For much of Wisconsin's history, schools boards were responsible for deciding how much to spend on education, and how much revenue to raise via the property tax levy to fund spending. However, the balance tipped in favor of the state in the 1993-'94 school year, when the state imposed revenue limits.

Revenue limits cap how much additional money school districts can raise for each pupil through a combination of state aid and property tax.³ Since their inception, revenue limits have increased annually at roughly the rate of inflation. The imposition of revenue limits defined one basic attribute of education finance in Wisconsin: Maintaining the status quo. Consider:

- Increases in revenue limits use the previous year as a base, ensuring that the largest predictor of spending is how much a district spent in the previous year.
- Revenue limits increase at roughly the rate of inflation, keeping overall school finance formula revenues, in inflation-adjusted dollars, relatively constant.
- The distribution of total state and local spending by school district remained steady between 1999 and 2012. In 1999 the 100 districts receiving the most state and local revenue per student received 117% of the state average of state and local revenue. In 2012 that number was 119%. Similarly, the 100 districts receiving the least state and local revenue received 88% of the state average of state and local revenue. In 2012 that number was 87%.⁴
- A state aid program called special adjustment aids ensures districts cannot receive less than 85% of the state aid they received in the previous year.
- The enrollment number used to generate payments to schools is a three-year average. It is designed to cushion districts against sudden increases and decreases in enrollment.

A second key attribute of Wisconsin's school finance is property tax relief. Because the total amount of state aid and local property taxes districts can raise is capped by revenue limits, increases in state aid generally serve to lower the property tax burden rather than increase total

education spending. In other words, increases in state aid do not necessarily translate into increases in overall spending. In the 1996-'97 school year, the state of Wisconsin committed to funding two-thirds of the local and state cost of K-12 education.⁵ This commitment, combined with strict limits on school board levying authority and the school levy tax credit, suggest that property tax relief was a major goal of Wisconsin's education finance system in the late 1990s. Although the state's two-thirds funding commitment was repealed in 2003-'04, the school levy credit and revenue limits remain, suggesting that property tax relief continues to be a major goal of Wisconsin's school finance system.

A third key attribute is direct democracy. Districts are empowered to exceed revenue limits only if a referendum is passed empowering them to do so. Since 2008, 83 of the state's 424 school districts passed a referendum to exceed revenue limits.⁶ In addition to going to referendum, school districts may also choose to levy under the maximum allowable amount. Seventy-seven percent of school districts did this in 2011.

A fourth key attribute is tax-base equalization. In laymen's terms this means that districts with low property values receive more of their funding through state aid than districts with high property values. In other words, poor districts receive more aid per pupil and rich districts receive less. As demonstrated in the final section of this report, this attribute is a consistent feature of Wisconsin school finance in recent history.

A fifth key attribute is a lack of predictability. Though the fundamental workings of the school aid formula are relatively consistent, the impact on specific districts is dependent on:

- Politics: How much money will the Legislature put into school aids? How much will the Legislature increase per-pupil revenue limits? Will categorical aids continue to be funded? Should all categorical aids continue to be funded?
- Enrollment: How many students live in the district? How many will attend traditional public schools? Are enrollments rising or declining? What about total statewide enrollment?
- Property values: Is the school district getting richer or poorer? What about other school districts? Is the school district gaining or losing on the state average over time?

The final key attribute of Wisconsin's school finance is the increasing use of categorical aids that exist outside the school aid formula to fund specific programs and students. In 2000-'01, Wisconsin spent about 11 cents in categorical aids for every dollar spent on equalization aid; in 2011-'12, the state spent 18 cents in categorical aids per dollar spent on equalization aid. The growing use of categorical aids to fund specific programming such as the SAGE small class-size program suggests that the overall goal of Wisconsin education finance is gradually shifting away from tax-base equalization and toward the funding of specific programs. Notably, categorical aids have been favored across the political spectrum as a vehicle to fund favored reforms. Rarely are categorical aids defunded.

At its most basic level, the goal of education finance in Wisconsin is simple: Fund the free education guaranteed to Wisconsin pupils in the state constitution. But that basic goal begs many questions. Is the goal to fund individual districts, schools or pupils? What exactly is meant by public education? Can public education occur in a nonpublic school? How does the public know that a uniform level of education is funded? The scope of this report is to give readers a base level of knowledge of school finance that helps them better consider these questions.

The Role of the Department of Public Instruction

Perhaps the most important player in Wisconsin's school finance system is the state agency in charge of the logistics of school finance in Wisconsin, DPI:

- Determines how much revenue districts are entitled to through the state aid formula
- Monitors district reporting of financial and enrollment information
- Delivers funds to districts
- Interacts continually with the Legislature as both experts and advocates, as well as with the school districts and schools actually spending public funds on public education

It follows that DPI possesses enormous influence in the way it administers the financing of public education. Importantly, unlike the heads of other state agencies, the head of DPI, the state superintendent, is a constitutional officer. This means that the state superintendent is elected by the people rather than appointed by the governor. This makes DPI a uniquely independent state agency. In the past, this independence has created political tension between the agency and the Legislature, the governor and school districts.

The unique position of DPI is part of a larger narrative

of the role of politics in education in Wisconsin. The processes and concepts discussed in this report are often implemented through a political process. Often this process is charged. This should not be terribly surprising; the cost of public education is the largest budget area in Wisconsin, which arguably places it as the state's largest priority. Though discussion of politics are largely absent from this report, its reality and its influence in public education must be acknowledged.

History of Wisconsin Education Finance

The history of education finance in Wisconsin consists of several important eras that generally ended with either legislative or judicial action. Beginning with the adoption of the state Constitution in 1848 and up until 1923-'24, Wisconsin school districts relied on local property taxes and state aid known as library aid, which was meant to support local schools and also facilitate the creation of school libraries.⁷ Library aid was a flat aid, meaning that every district received an equal amount of state aid per pupil. Because the taxing capacity and willingness of school districts differed, total per-pupil education aid varied widely across Wisconsin during this era.

According to Maher, et. al., (2007) the then-state superintendent of education, John Callahan, argued in 1924 and 1926 that the state needed to attempt to better equalize the per-pupil funding of students across all Wisconsin school districts. In 1927, the Legislature took action by introducing a flat aid of \$250 for every teacher in a district, and also used state aids to mimic a minimal tax base of \$250,000 per elementary teacher in every school district.⁸ In other words, if the total district property wealth divided by the number of elementary teachers in the district equaled less than \$250,000, state aid was used to fill in the gap. Those that had a sufficient tax base of over \$250,000 per elementary teacher received no state aid.

The system passed in 1927 survived until the passage of the Act of Aug. 6, 1949. That act created Section 121.01 of the state statutes, which describes the purpose of the state aid formula as "to cause the state to assume a greater proportion of the costs of public education and to relieve the general property of some of its tax burden."⁹ In essence, the passage of this act defined the role of the state in education finance as shifting education costs from local property taxpayers to state aid. The act also eliminated the per-teacher tax base guarantee in favor of a per-pupil tax-base guarantee. Because the purpose of the formula was to supplement districts with small property tax bases, districts with large tax bases were not included in the equalization aid formula. Instead, these districts received a flat payment based on their enrollment.¹⁰

The dual system of equalization aid for small tax-base districts and flat aids for larger tax-base districts continued until 1973. That year, in part influenced by a task force appointed by Gov. Patrick Lucey, the Legislature created an equalization aid formula that included all Wisconsin school districts.¹¹ The new formula increased state funding of education by 40% and eliminated the use of flat aids.¹² The new system also introduced negative aid, which required districts with very high levels of spending and property wealth to send part of their property tax levy to the state for distribution to other school districts.¹³ The negative aid provision, however, was ruled unconstitutional in a 1976 Wisconsin Supreme Court decision, *Buse v. Smith*.¹⁴ Hence, a true equalization aid formula, in which every school district that taxed at the same rate had an equal level of per-pupil spending, was impossible.¹⁵

In 1973, the concepts of primary and secondary aids were introduced to Wisconsin's state finance formula. The concepts will be explained fully in the second section of this report. For purposes of understanding the history of education finance in Wisconsin, it is important to know that 1973 also saw the introduction of basic concepts of tax-base equalization that are still used in Wisconsin's education funding system.¹⁶

The next significant change in the state equalization aid formula came in 1985 when the Legislature created minimum aids. These aids were flat payments to property-wealthy districts that received no equalization aid.¹⁷ The minimum aids provision was repealed in 1996.¹⁸

Though there have been several small changes to the state equalization aid formula since 1996, the general concepts remain largely the same, and the basic goal of the equalization aid formula was upheld by the Wisconsin Supreme Court in 2000 in *Vincent v. Voight*.¹⁹ However, the financing of education in Wisconsin is more than the equalization aid formula; districts receive substantial state categorical aids for specific programs. This funding is separate from the equalization aid formula, and it has increased in recent years. In 1995-'96 about 82% of all state aid was equalization aid. In 2011-'12 only about 79% of state education aid was equalization aid.²⁰ If the state continued to spend 82% of its total state aid on equalization aid, school districts would have received an additional \$123.4 million in equalization aid in 2011-'12.

In addition, since 1990, Wisconsin has spent dollars outside the equalization aid formula on students attending private schools via vouchers in Milwaukee and Racine.

Though this remains a relatively small slice of the overall spending pie, it is a growing slice. According to DPI data,

over 25,000 students are attending private schools using vouchers in Milwaukee and Racine. Proposed expansions of the voucher program could mean even more public funding of K-12 education outside the traditional public school sector in coming years.

Finally, the passage of the Elementary and Secondary Education Act in 1965 dramatically increased federal spending on local schools; today over 9% of funding for Wisconsin K-12 education comes from the federal government (see Table 1.1).

As can be seen in Table 1.1, Wisconsin spent about \$11.3 billion on K-12 public schools in 2010-'11. The state spending level is high relative to other states. According to the National Center for Education Statistics, Wisconsin ranks 18th in the nation in per-pupil K-12 education spending.

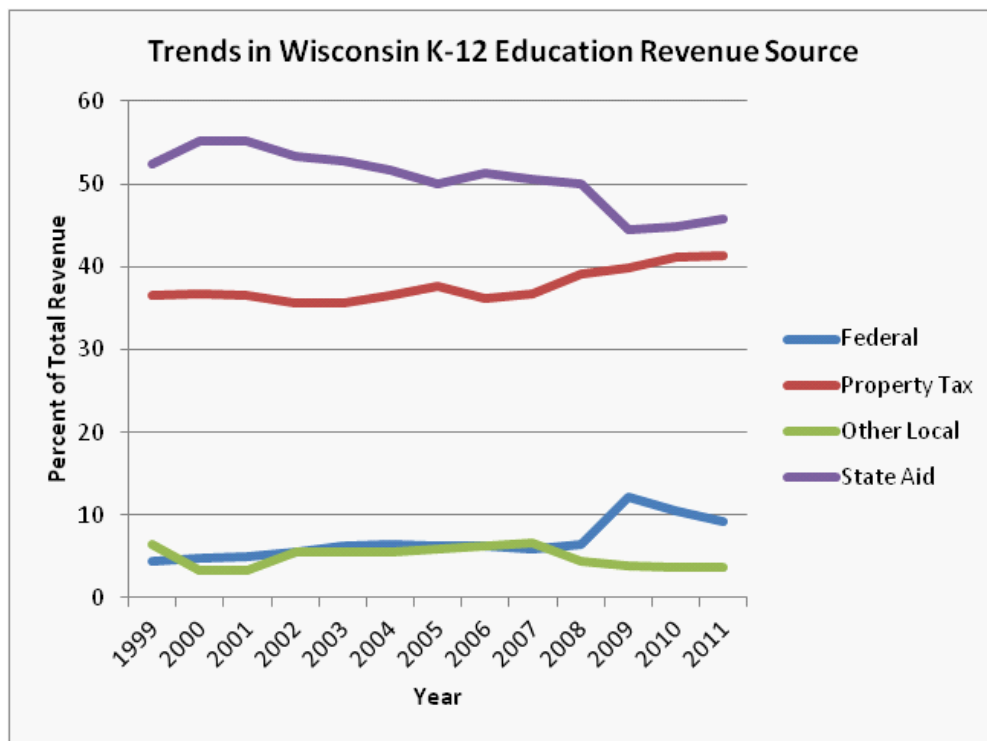
The vast majority of funding for Wisconsin education, 90.8%, came from state and local sources, while about \$1 billion came from the federal government. Figure 1.1 shows recent trends in the percentage of revenue from state, local, and federal sources. (Note that the 2009 increase in federal revenue was a result of the federal stimulus program.) As shown, the percentage of total K-12 education that goes to districts in the form of state aid has been decreasing, while the percentage of revenue coming from property taxes has been slowly increasing in recent years.

Table 1.1 – Wisconsin Public School Funding by Source, 2010-'11²¹

	Revenue	Revenue per member	Percent of total
State	\$ 5,186,609,484	\$ 6,050	45.8%
Federal	\$ 1,036,434,925	\$ 1,209	9.2%
Local: property taxes	\$ 4,680,455,765	\$ 5,460	41.4%
Other local*	\$ 411,242,066	\$ 480	3.6%
Total revenues	\$11,314,742,240	\$13,199	100.0%

*Other local aid includes program revenues from such things as lunch sales.

Figure 1.1

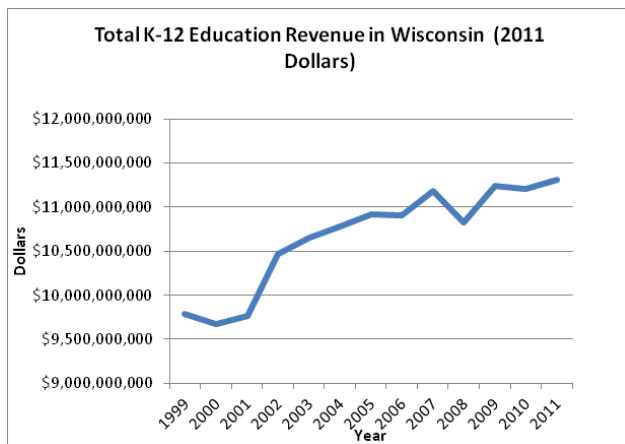


Conclusion

Figure 1.2 shows that since 1999, the total amount spent on K-12 education in Wisconsin, adjusted for inflation, has increased by 15.6%. In addition, enrollment in Wisconsin declined slightly between 1999 and 2011, making increases in revenue more profound. Per-pupil revenues, adjusted for inflation, increased by 17% between 1999 and 2011.

The preceding section outlined what this document intends to do, discussed the basic tension between state and local control of education finance, defined the attributes of Wisconsin's education finance system, and presented a brief history of Wisconsin's education finance system. At this point the reader should be familiar with the broad concept of education finance in Wisconsin. The next section will give a description of the specific concepts used in discussions of education finance in Wisconsin.

Figure 1.2



2. The Basics

Discussions of education finance are generally complicated and dominated by jargon. This section of the report will seek to demystify the basics of education financing by explaining the underlying concept of equalization aid, giving an easy-to-understand overview of how school district funding is determined, and dispelling key myths. Upon completion, the reader should be armed with sufficient knowledge to understand and participate in education finance policy discussions. For definitions of the key terms used in Wisconsin education finance, refer to Appendix III — Defining Key Terms.

The Underlying Concept of Aid Equalization

As mentioned in the introductory section of this report, the basic goal of what is commonly referred to as Wisconsin's school funding formula is the equalization of school district tax bases. In its simplest form, the equalization aid formula is a system in which districts serving wealthy communities receive less state aid and districts serving poorer communities receive more state aid to ensure that a district does not have less funding to spend on public education simply because its community is not wealthy. The actual equalization aid formula is more complicated. However the basic premise is not: It is simply the use of state aid to correct imbalances in taxable property wealth. Why taxable property wealth? The assumption is that it is the most stable and accurate predictor of wealth in a community over time. This is the core premise of education finance in Wisconsin.

According to the Wisconsin Legislative Fiscal Bureau, the goal of the equalization aid formula is “equal tax rate for equal per-pupil expenditure.”²² So, for example, in a truly equalized aid formula, two districts that both spend \$10,000 per pupil on education would receive state aid such that they would each have an identical property tax rate. If Wisconsin's 424 school districts all had taxable property of identical value, there would be no need for equalization aid. Of course, this is not the case.

Say there are two districts, each with 500 pupils. District A has taxable property (or equalized property value) worth \$500 million, or \$1 million per pupil, and District B has taxable property worth \$250 million, or \$500,000 per pupil. Assume both districts had a mill rate — defined as “the amount of property tax dollars levied for each \$1,000 of equalized property value” — equal to the state school district average mill rate in 2011-'12 of 9.84.^{23 24} **

- The property tax levy would generate \$4,920,000 total and \$9,840 per pupil in District A (Mill rate X equalized property value/\$1,000 or $9.84 \times \$500,000 = \$4,920,000$) and
- The property tax levy would generate \$2,460,000 total and \$4,920 per pupil in District B (Mill Rate X equalized property value/\$1,000 or $9.84 \times \$250,000 = \$2,460,000$).

Obviously the identical mill rate in these two districts does not result in an equal level of per-pupil spending because the tax base of District B is half the size of District A's. The premise of state equalization aid is to send more state funding to District B than to District A in order to correct the imbalance in the two districts' property wealth.

In the Weeds of the Equalization Aid Formula

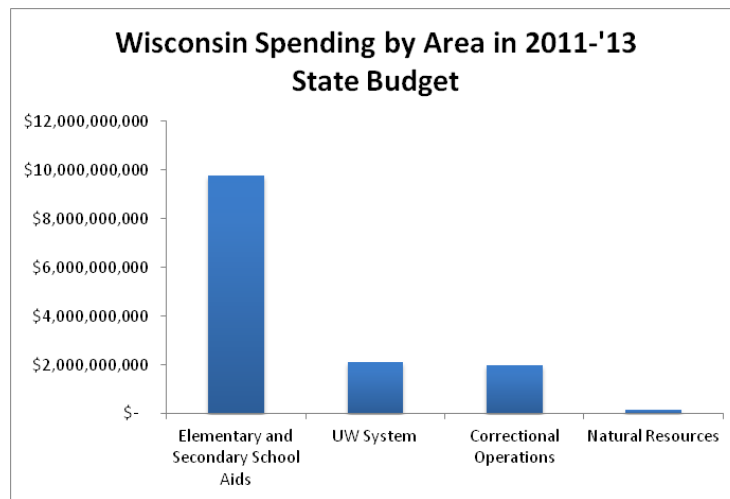
The largest and most complicated part of Wisconsin's education finance system is arguably the specifics of the equalization aid formula. As discussed earlier, the basic goal of the equalization aid formula is straightforward: To equalize the tax base behind each Wisconsin pupil and provide a platform of funding for all Wisconsin public schools. As seen in Figure 2.1, Wisconsin allocates significantly more funding for school aids than it does for other major budget priorities like the University of Wisconsin System. The concept of school aid is important not just for understanding school finance, but for understanding the state budget process on whole.

This subsection of the report will explain exactly what Wisconsin's equalization aid formula does, using many of the terms explained in Appendix III, page 41.

The allocation of equalization aid to a school district is, at its simplest, a two-step process. First, a school district's per-member shared costs (basically what it spends per pupil, excluding categorical aids) are divided into three levels. Second, state aid is calculated for each school district in order to offset disparities in districts' per-pupil tax bases. In other words, if a school district has a property valuation per member below the guaranteed valuation per member at any cost level, state aid is used to make up the difference between the actual property valuation per member and the guaranteed valuation per member.

**Note that this example is hypothetical and that in practice district mill rates are set after the amount of equalization aid to a school district is determined.

Figure 2.1²⁵



Why are school district costs split into three levels? What does dividing costs in this manner actually mean for school districts? The three levels of aid equalization serve several policy goals:

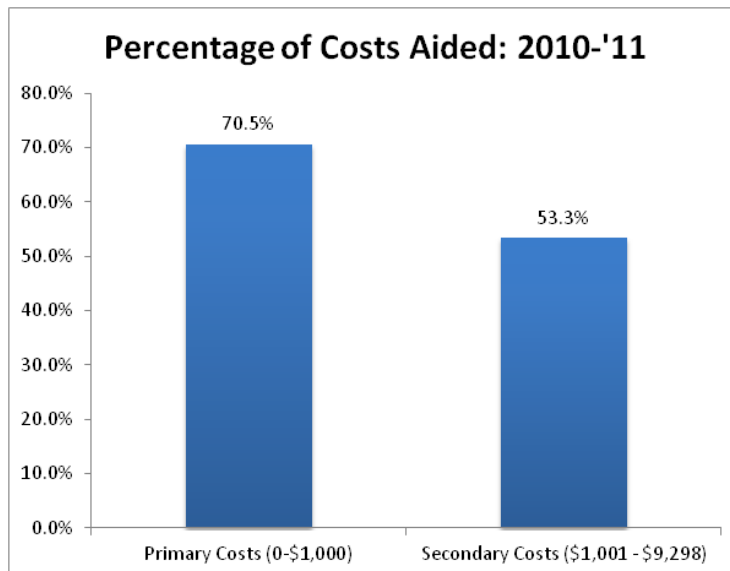
- First, the primary costs threshold serves to ensure that some measure of state funding exists for most school districts — even those that are relatively wealthy. Accordingly, all school districts are given a large guaranteed property valuation at this level. As illustrated in Figure 2.2, a total of 70.5% of all costs at this level, which consists of the first \$1,000 per pupil that school districts spend, was state-aided in 2010-'11. That year, all but the 21 wealthiest school districts in Wisconsin received some state aid at the primary cost level.

- Secondary costs are where the concepts of aid equalization are most evident. At this tier, the guaranteed valuation per member is lower, meaning fewer wealthy districts receive state aid for these costs. In 2010-'11, 32

districts received no aid at this level. Importantly, the actual guaranteed valuation at this tier is not set in statute, but is instead relative to the amount of aid available. The actual guaranteed tax base for these costs is set at a level that ensures all equalization aid is distributed. In 2010-'11, 53.3% of all secondary costs were state-aided (see Figure 2.2).

- Tertiary costs, which have a much lower guaranteed valuation per member, serve to ensure that high-spending-per-pupil districts only receive state aid for their highest costs if they are relatively poor. In 2010-'11 243 Wisconsin school districts received state aid at the tertiary level. However, 119 school districts were affected by negative tertiary aid, meaning their secondary aid was reduced because they are property wealthy districts that spend at a high rate. The concept of negative tertiary aid goes beyond the goal of tax base equalization by actually penalizing high-wealth/high-spending districts. Arguably this serves a policy goal of discouraging high rates of spending in property wealthy districts.

Figure 2.2²⁶



Readers seeking a detailed explanation of the equalization aid process may reference Appendix 1, page 36. More important than the components of the equalization aid formula is knowledge of few basic principles. What is referred to as the state education funding formula is essentially a straightforward four-step process:

1. The state Legislature determines how much revenue (the per-pupil revenue limit) the school district can raise per pupil from state and local sources.

2. The district's membership count (which is the three-year average) is multiplied by the number determined by the calculation in Step 1 to determine the total revenue the district can raise.

3. The amount of state aid sent to the district is determined by how much funding is put into the equalization aid formula by the Legislature, and by each district's property wealth. Generally the poorer the district, the higher the percentage of state aid (as a percentage of all state and local revenue) received, and vice-versa.

4. The maximum allowable levy is determined by subtracting the amount of state aid sent to the district from the district's total allowable revenue.

In addition to understanding this process, knowledge of the following concepts is important:

Decreasing overall state aid (or equalization aid) does not mean less education funding is available for districts. Unless school districts get approval from voters via referendum to exceed revenue limits, overall school district state and local spending for education is determined by the increase in per-pupil revenue limits, enrollment, and what a district spent in the previous year. Increases or decreases in state aid merely change the mix between state aid and local property tax revenue. If revenue limits are cut, however, there is indeed less money available for districts to spend on education. Revenue limits have more influence over local school spending than do changes in state equalization aid.

More kids mean more money. Because revenue limits are generated on a per-member basis, increasing enrollment gives school districts more money to spend. For example, if a district has a per-pupil revenue limit of \$10,000 and increases membership by 25 students, the district can raise an additional \$250,000 in state aid and property tax. Therefore, districts that want to spend more on education have an incentive to enroll more students.

All things being equal, more kids mean a higher percentage of state aid. The equalization aid formula is based on a district's per-member property wealth. When a district gets poorer, its aid goes up and its property tax goes down. Enrolling more students decreases a district's per-member property wealth, which increases state aids and lowers the property tax per member. Districts that want to lower their per-member property tax have an incentive to enroll more students.

State aid is a zero-sum game; more for me means less for you. Every two years, the Legislature puts a finite amount of money into the equalization aid formula. Changes in student counts, property valuation and revenue limits that increase state aid and lower property taxes in one district (all other things being equal) lower state aid and increase property taxes in others.

Conclusion

This section of the report described and outlined the concept of equalization, specifically explained how the equalization aid formula works, and gave a high-level overview of Wisconsin's education finance system. The descriptions presented will enhance understanding of the following sections, which discuss revenue and allocation, timelines for distributing funds, and school choice funding.

3. Revenues and Allocation

The fundamentals of Wisconsin education finance discussed in the previous two sections provide a basis for understanding exactly where public revenues funding education originate and how they are distributed. This section of the report will describe how much Wisconsin taxpayers invest in public education, how much specific taxes contribute to that investment, and the methods by which the public’s overall investment is spread out among the various entities educating Wisconsin pupils. Upon completion of this section the reader will have an understanding of the size and scope of Wisconsin’s education spending.

How Much Do Wisconsin Taxpayers Invest in Public Education?

In 2011-’12, Wisconsin taxpayers invested about \$9.5 billion in public education. As shown in Table 3.1, total state spending on education before adjusting for inflation has increased 31% since 2001. During the same time period, total enrollment in Wisconsin public schools decreased 0.79% (from 877,379 to 870,470). The largest increases in Wisconsin education spending since 2000-’01 have been in categorical aids for specific programs (56.3%),

and the local property tax levy (58.7%). Equalization aid remains similar to its 2000-’01 level, while integration aid for students using the Chapter 220 racial integration programs (see section on School Choice Programs) has declined by 19.2% since 2001.

Special adjustment aid, designed to cushion school districts from sudden, large decreases in state aid, however, increased dramatically in 2011-’12. Generally, districts are guaranteed to receive general school aids in an amount equal to at least 85% of their general school aids in the previous year.²⁷ Reasons a district might see a large decline in state aid from one year to the next include a significant uptick in property wealth, a significant enrollment decline, a decrease in property wealth and/or increase in enrollment in other districts, or a legislative cut to state aid.

Two factors contributed to the large amount of special adjustment aid in 2011-’12. First, the general aid guarantee was increased from 85% to 90% of the previous year’s amount in 2011-’12 only.²⁸ Second, general school aids were decreased by 6.9% in 2011-’12, making an unusually large number of school districts eligible for special adjustment aid.²⁹

Table 3.1 – Wisconsin State Aid/Levy Public Education Revenue by Source and Selected Year (Nominal Numbers)³⁰

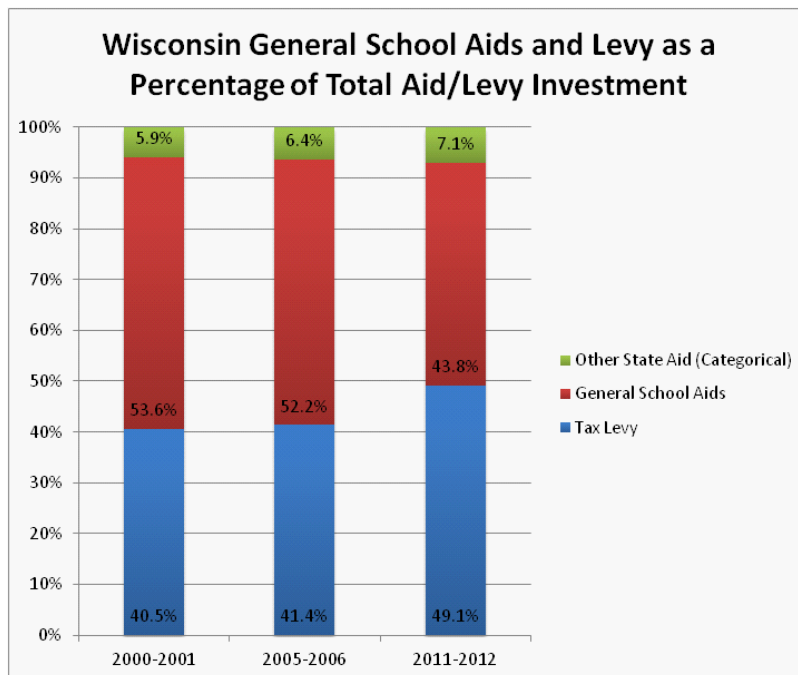
Year	2000-’01	2005-’06	2011-’12	Change Since 2001
Tax Levy	\$ 2,928,085,217	\$ 3,592,272,872	\$ 4,646,695,344	58.7%
Equalization Aid	\$ 3,785,262,269	\$ 4,443,172,481	\$ 3,830,307,147	1.2%
Integration Aid	\$ 84,302,089	\$ 84,221,931	\$ 68,128,430	-19.2%
Special Adjustment Aid	\$ 1,656,952	\$ 8,242,918	\$ 252,864,323	15,160.8%
Other State Aid	\$ 428,881,950	\$ 558,035,891	\$ 670,254,339	56.3%
Total	\$7,228,188,477	\$8,685,946,093	\$ 9,468,249,583	31.0%

Table 3.2 shows the same information as Table 3.1 with adjustments for inflation. In real dollars, total education spending in Wisconsin has increased by 4.1% since 2000-'01. Notably, both local education levies and state categorical aids are increasing while total equalization aid to Wisconsin districts is decreasing after spiking in 2005-'06. Figure 3.1 illustrates the increased dependence of school districts on the local tax levy and state categorical aids for education revenue. Currently, less than half of all Wisconsin local and state education aid flows to districts in the form of general school aids.

Table 3.2 – Wisconsin State Aid/Levy Public Education Revenue by Source and Selected Year (Inflation Adjusted Numbers)³¹

Year	2000-'01	2005-'06	2011-'12	Change Since 2001
Tax Levy	\$ 3,686,082,844	\$ 4,074,254,977	\$4,646,695,344	26.1%
Equalization Aid	\$ 4,765,158,552	\$ 5,039,321,409	\$3,830,307,147	-19.6%
Integration Aid	\$ 106,125,492	\$ 95,522,148	\$ 68,128,430	-35.8%
Special Adjustment Aid	\$ 2,085,890	\$ 9,348,886	\$ 252,864,323	12,022.6%
Other State Aid	\$ 539,907,237	\$ 632,908,631	\$ 670,254,339	24.1%
Total	\$ 9,099,360,014	\$ 9,851,356,051	\$9,468,249,583	4.1%

Figure 3.1



Where Do State and Local Education Revenue Come From?

Though the state and local education funding for school districts comes in the form of equalization aid, categorical aid and property taxes, it is possible to go one step further and determine where exactly the funds for state aid originate. Property taxes, obviously, are paid by property owners in every school district. Categorical and general school aids are funded almost entirely with state general purpose revenue from the general fund.³²

The general fund is state revenue used to fund state operations. The size of the fund fluctuates annually depending on the level of state tax collections. The vast majority of GPR, 93%, comes from tax revenue; the rest comes from tribal gaming revenues and other sources.³³ As illustrated in Figure 3.2, in 2009-'10 the majority of tax revenue going into the general fund came from personal income taxes and general sales tax. In 2009-'10 almost half of the \$13.5 billion general fund, 49.7%, went toward education.³⁴

In other words, the state revenues that pay for local education are primarily funded by the income and sales taxes paid by ordinary Wisconsin citizens. The major difference is that property taxes (with minor exceptions to be described later) fund local schools, while income and sales taxes paid by an individual in most cases fund

schools throughout the state. The important concept to remember is that the base revenues for all local and state education aid that flows to Wisconsin districts originate almost entirely from taxes. Below is a brief description of each type of tax whose revenues go to the state general fund:

Individual income tax — The tax on individual income earned in Wisconsin.

Corporate income tax — The tax on income earned by corporations in Wisconsin.

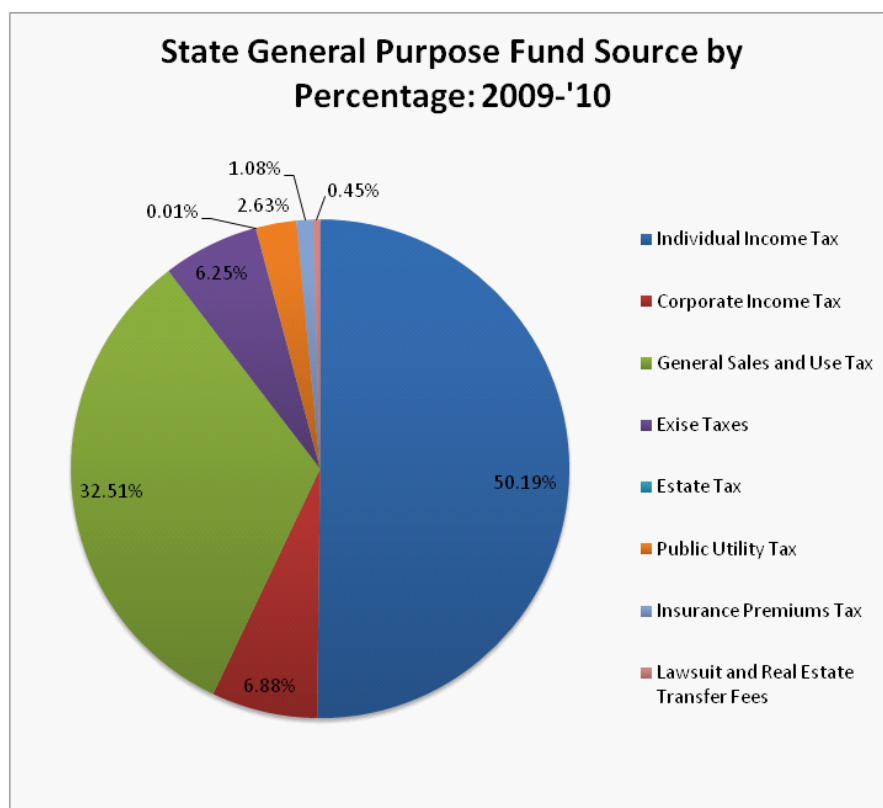
General sales and use tax — A uniform tax on goods and service sold in Wisconsin.

Excise tax — Taxes on specific goods sold in Wisconsin. Examples include taxes on alcohol and tobacco products.

Estate tax — A tax on all property transferred after the death of a state resident. The estate tax is currently inactive in Wisconsin.

Public utility tax — A specific tax on regulated Wisconsin public utility corporations paid instead of local property tax.

Figure 3.2 - Federal Aid to Wisconsin³⁵



In addition to local property tax revenue, state categorical aids and state equalization aids, Wisconsin schools districts receive significant amounts of federal aid. As illustrated in Figure 3.3, federal aid to K-12 education in Wisconsin increased dramatically after 1999. However, the increase was slow and steady until 2008, when an influx of federal stimulus funds caused a significant one-time bump in federal education spending in Wisconsin. Since 2009 federal revenue has declined, and it will likely continue to do so as the last of the federal stimulus money is spent as it was intended by the U.S. Congress.

According to the U.S. Department of Education, there are two major and several smaller sources of federal revenue to Wisconsin school districts. The first major source is Title I funds.

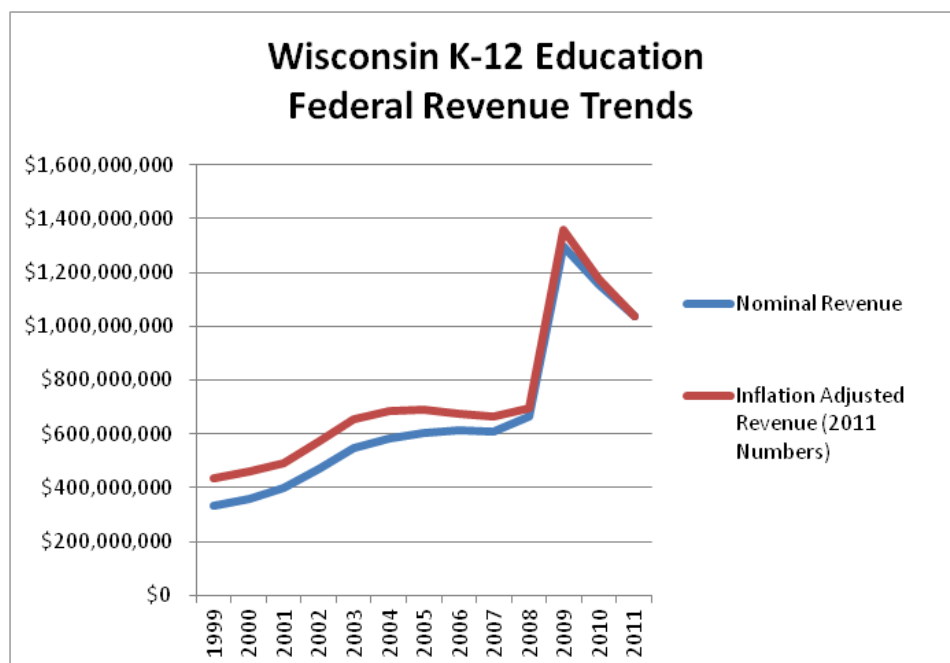
Title I funds are authorized by the Elementary and Secondary Education Act (ESEA), the most recent iteration of which is commonly referred to as No Child Left Behind. The funds are targeted at low-income children and designed to finance “the additional academic support and learning opportunities that are often required to help disadvantaged students progress along with their classmates.”³⁶ In FY2011, a total of \$212,999,941 in Title I funds was provided to Wisconsin school districts. In

addition, a variety of other grants authorized by the ESEA targeted at things like teachers quality were provided to Wisconsin school districts in FY2011. In total, Wisconsin received \$311,550,165 in ESEA funds in FY2011.

Wisconsin also receives significant funding for special needs students through the federal Individuals with Disabilities Education Act. In FY2011, \$222,423,942 was allocated to Wisconsin to fund special needs students.

Finally, Wisconsin receives a moderate amount of federal funding for vocational training for students and for services such as vocational rehabilitation. In total, Wisconsin received \$622,599,711 in federal funding under the ESEA, the IDEA, and the additional funds for vocational training rehabilitation. However, as illustrated in Figure 3.3, total federal funding to K-12 education in Wisconsin was more than \$1 billion in FY2011. The reason is that stimulus funds received by Wisconsin through the 2009 American Recovery and Reinvestment Act are still being spent.³⁷ However, updated figures obtained from DPI put total K-12 education funding in the state for 2011-12 at about \$790 million, meaning the impact of the ARRA is waning.³⁸

Figure 3.3³⁹



State Categorical Aids

Categorical aids, which do not count toward revenue limits, are the mechanism by which many school-reform programs favored by politicians across the spectrum are funded. Categorical aids give the Legislature more power over the use of specific funds by earmarking them for a specific purpose. Districts cannot use categorical aids to fund general operations. The aids are included in the state budget every two years. Below is a list of categorical aids, the amount appropriated for the aid (from the general fund unless otherwise noted) in the 2011-'12 school year, and a brief explanation of the aid.

Special education

Amount: \$368,939,100

Special education aid goes to fund the salary and benefit costs for teachers and professionals serving students with special needs, the salaries of providers contracted to provide services for special needs pupils, transportation costs, and a variety of other costs for students between the ages of 3 and 21 receiving special needs services.⁴⁰ Historically, special education costs make up the largest categorical aid expenditure.

Additional special education

Amount: \$3,500,000

Wisconsin provides additional aid (under a provision enacted in 2005) to districts serving very high-cost special needs pupils. Specifically, the aid funds 90% of all special education costs incurred by students above \$30,000. If less money is available than is required to fund all high-cost special needs pupils at this rate, the funds are prorated.⁴¹

Supplemental special education

Amount: \$1,750,000

This aid was enacted in 2007 and provides aid for special needs pupils to districts that meet all of the following criteria:

- Their per-pupil revenue limit is below the state average.
- Their total costs for special education make up 17% or more of their total expenditures.
- Total district enrollment (membership) is below 2,000 pupils.

Districts receive aid based on their total special education costs compared with other qualifying districts and are not eligible for Additional Special Education categorical funding if they receive this aid, and vice-versa.⁴²

SAGE

Amount: \$109,184,500

The Students Achievement Guarantee in Education (SAGE) program provides \$2,250 per pupil (the amount is prorated if there is not enough money available) for low-income students in grades K-3 in classrooms with an 18:1 student teacher ratio, or 30 students and two teachers. The program began in 1996-'97.⁴³

SAGE-debt service

Amount: \$133,700

Any school district (but MPS) that received permission from DPI and passed a referendum approving the action can receive this aid to offset 20% of its debt-service expenses attributable to buildings with SAGE programs.⁴⁴

Pupil transportation

Amount: \$23,703,600

School districts receive the following aid per pupil annually for private and public school students transported the following distances:⁴⁵

- Less than 2 miles in an area deemed hazardous: \$15
- 2 to 5 miles: \$35 (\$4 for summer school)
- 6 to 8 miles: \$55 (\$6 for summer school)
- 9 to 12 miles: \$110 (\$6 for summer school)
- Over 12 miles: \$220 ((\$6 for summer school)

Sparsity aid

Amount: \$13,453,300

Enacted in 2007, sparsity aid is targeted toward small, geographically spread-out districts. To receive this aid, a district must enroll fewer than 726 members and have fewer than 10 members per square mile in the district, and enroll at least 20% low-income pupils as defined by free and reduced-price lunch eligibility.⁴⁶

Bilingual-bicultural education

Amount: \$8,589,800

School districts required to provide classes for students of limited English proficiency by virtue of enrolling 10 or more (in grades K-3) or 20 or more (in grades 4-12) students in a common foreign language group are eligible for this aid. Aid is distributed to districts based on their actual costs of offering this programming.⁴⁷

Tuition payments

Amount: \$8,242,900

The state of Wisconsin pays the costs of education for children in three distinct circumstances:

- Children placed in homes by county or state social service officials
- Children with parents living on or employed at military or penal institutions
- Children in foster care or group homes

Payments are made to school districts enrolling these pupils based on the district's actual cost per pupil.⁴⁸

Head Start supplement

Amount: \$6,264,100

Since 1990-'91, the state of Wisconsin has provided additional funding to agencies receiving federal Head Start funds. Head Start is a federal program that serves children up to the age of 3. State funding for Head Start is targeted toward existing programs seeking to expand.⁴⁹

School lunch

Amount: \$4,218,100

School lunch aid is paid annually to school districts, private schools and independent charter schools at a rate equal to a percentage of the federal lunch aid paid to school districts, private schools and independent charter schools. The money is used to subsidize meals for low-income children.⁵⁰

County Children with Disabilities Education Board

Amount: \$4,067,300

Four counties in Wisconsin provide services for students with disabilities served by school districts located within the county. These services are overseen by a board with three or more members, and are funded by this allocation.⁵¹

School breakfast

Amount: \$2,510,500

School breakfast aid provides \$0.15 per breakfast to schools participating in the federal school breakfast program. If less money is appropriated than required to pay the cost of the aid, the funding is prorated.⁵²

4-year-old kindergarten grants

Amount: \$1,350,000

Since 2008-'09, school districts have been able to apply for grants to fund portions of new 4-year-old kindergarten programs. Districts receiving grants received \$3,000 per-pupil enrollment in the new program in year one, and \$1,500 per pupil in year two.⁵³

Mentoring for initial educators

Amount: \$1,1172,400

Since 2005, school districts have been able to receive up to \$375 to offset the time district teachers spend serving as mentors to new teachers.⁵⁴

School day milk

Amount: \$617,100

This fund pays 100% of the cost of milk for low-income pupils in grades preschool to five in schools that do not participate in the federal milk program.⁵⁵

Aid for transportation — open enrollment

Amount: \$434,200

Under the state open-enrollment program, students may attend public schools located outside of their home districts. Under state statutes, parents are responsible

for transportation costs. However, low-income families, defined as being eligible for free and reduced-price lunch, may seek to have their transportation costs reimbursed using this aid.⁵⁶

Peer review and mentoring

Amount: \$434,300

A grant program through which CESAs or groups of school districts apply for funding to provide teacher training and assistance “to implement peer review and mentoring programs.” Recipients of the grant provide matching funding of 20% of the rewarded grant.⁵⁷

Cooperative educational service agencies

Amount: \$260,600

The state annually funds the administrative costs of Wisconsin’s 12 CESAs.

Gifted and talented

Amount: \$237,200

Private nonprofit organizations, Milwaukee Public Schools, University of Wisconsin System institutions and CESAs may apply annually for funding for programs and assessments targeted toward high-performing pupils.⁵⁸

Supplemental aid

Amount: \$100,000

This aid provides funding for the Laona School District, a rural northern district with little tax base due to its location within the Nicolet National Forest.⁵⁹

Aid for transportation — youth options

Amount: \$17,400

Under Wisconsin state statutes, 11th- and 12th-graders may take courses at nonreligious postsecondary schools for credit either at the high school or postsecondary level. Pupils using the program for high school credit may apply to have a portion of their transportation costs reimbursed. Priority is given to low-income pupils.⁶⁰

AODA

Amount: \$1,427,500

The Alcohol and Other Drug Abuse (AODA) grants program, funded by program revenue raised from fines, provides funding for programs to reduce drug abuse by school-age children.⁶¹

Tribal Language Revitalization grants

Amount: \$222,800

Funded through tribal gaming revenue, this aid supports instruction in Native American languages.⁶²

School library aids

Amount: \$35,000,000

School library aids fund the purchase of library books and various other instructional materials. The aid is funded with segregated revenue from the common school fund, which is a fund “primarily derived from interest payments on loans made from the fund to municipalities and school districts by the Board of Commissioners of Public Lands.”⁶³

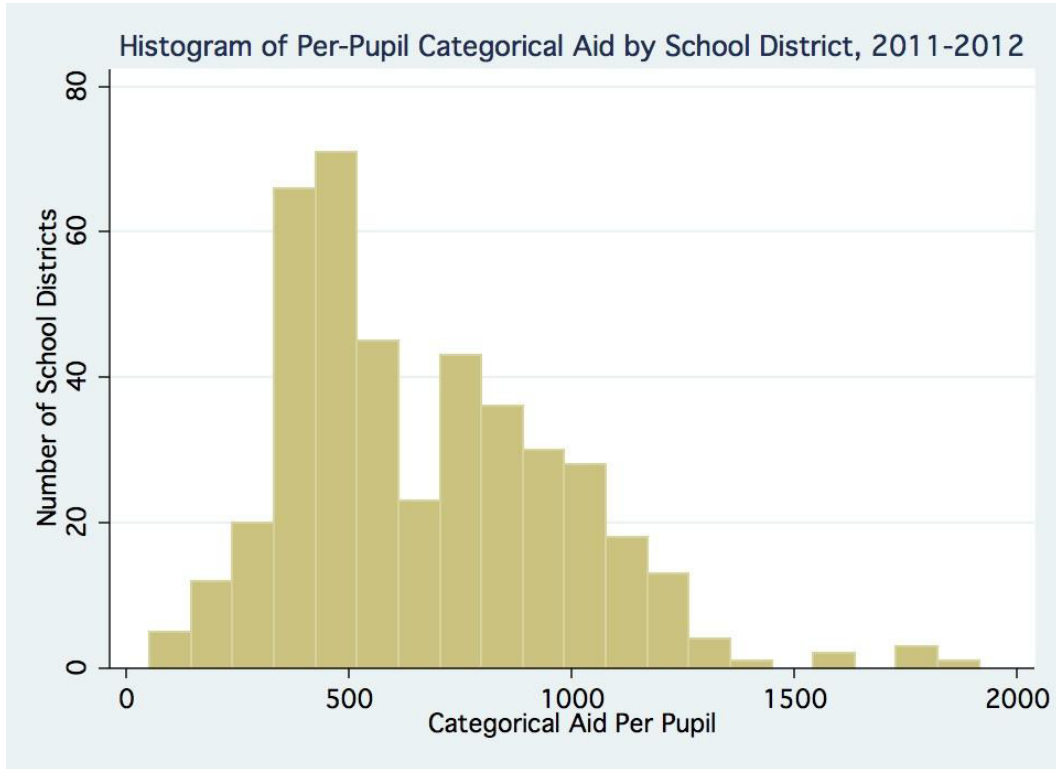
High poverty aid

Amount: \$16,830,000

High poverty aid is technically not a categorical aid because most school districts receiving it may use the funding as they see fit. However, poverty aid is treated as a general aid in the equalization aid formula and does count toward revenue limits. In Milwaukee, the aid is used to offset the MPS aid reduction used to pay for a portion of the Milwaukee Parental Choice Program (MPCP), as will be discussed in Section 5. Districts serving at least 50% low-income pupils are eligible for high poverty aid.⁶⁴

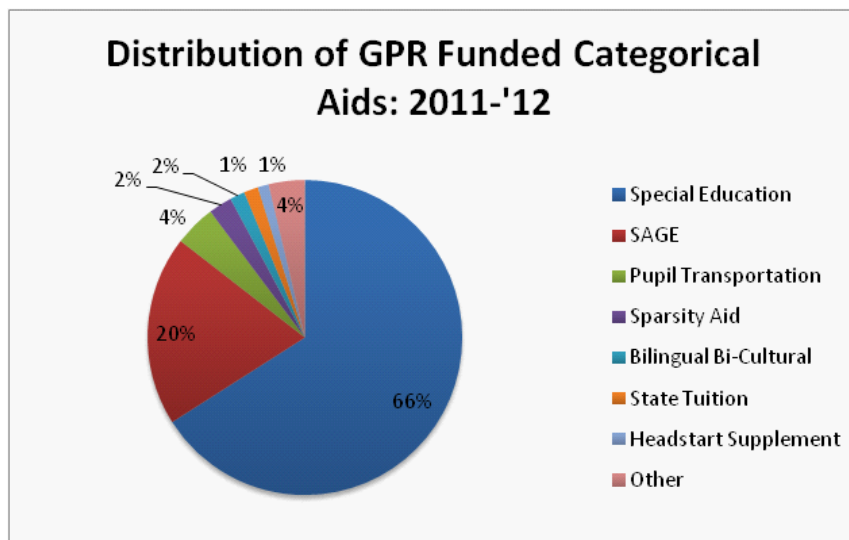
As illustrated in Figure 3.4, there is a wide variation in the per-pupil categorical aids received by individual Wisconsin school districts. Most districts receive somewhere between \$300 and \$700 per pupil for their various programs. However, a significant number of districts receive over \$1,000 per pupil.

Figure 3.4



The pie chart in Figure 3.5 shows the total distribution of GPR-funded categorical aids in 2011-'12. Despite the large number of aids, the bulk of categorical funding comes from just a few. Special education and SAGE are, by far, the most significant types of categorical aid funding received by school districts.

Figure 3.5



Other Revenues and Allocations

Wisconsin school districts are affected by several other revenue streams in addition to state, federal and local tax revenues. Those revenue streams are briefly explained below.

School levy tax credit. The school levy tax credit as explained in Appendix III, page 43, is a dollar-for-dollar property tax relief program. The amount of funding sent to municipalities to offset the education property tax levy is determined through the following three-step process:

1. The Legislature determines the total appropriation to the school levy tax credit.
2. Each municipality's share of the statewide average education levy over the past three years is calculated.
3. Each municipality is given a portion of the statewide appropriation based on its share of the statewide levy.

In 2011-'12, \$747,400,006 was sent to municipalities to offset the education property tax levy for Wisconsin school districts via the school levy tax credit.⁶⁵ Notably, the school levy tax credit is considered state support for public education, meaning the amount appropriated under the credit to a school district is included in calculations of total state support for education funding in an individual school district.

Under a plan proposed by Wisconsin State Superintendent Tony Evers titled "Fair Funding for our Future," the school levy tax credit would be put into the state equalization aid formula. Given revenue limits, this funding would still provide property tax relief. However, it would do so through the process of tax base equalization rather than the three-step process outlined above.⁶⁶ In addition, districts could go to referendum to exceed their revenue limits, which would allow those districts to actually spend this credit on education costs.

Other local funding. Many Wisconsin school districts receive funding from other local sources. For example, MPS in 2011-'12 raised \$4 million from school meal sales and \$1,566,650 in rental income.⁶⁷ Districts also often receive local categorical aids in the form of foundation grants.

Community service levy (Fund 80). School districts in Wisconsin are allowed to levy a special tax to fund non-education activities that still serve the public, such as recreational sports leagues and adult learning programs. This levy does not count against revenue limits.⁶⁸ In 2011-

'12, Wisconsin school districts raised \$79,191,473 under the community service levy.⁶⁹

Choice programs. The state's school choice programs substantially impact Wisconsin school district funding. Districts across the state receive or send transfer payments to other districts under the open enrollment program, MPS districts near Milwaukee are affected by the Chapter 220 voluntary racial integration program, every school district across the state receives an aid reduction (and subsequent increase in levying authority) to pay for independent charter schools, and MPS and the Racine Unified School District receive an aid reduction (and subsequent increase in levying authority) to pay a portion of the cost of the state's two private school voucher programs. The funding of these choice programs, which totals over \$200 million, will be explained in detail in Section 5 of this report.

What Everyone Should Know about Revenues and Allocations

- Understanding the complex variety of ways in which Wisconsin school districts receive public funds may seem daunting. However, all that is needed is familiarity with a few basic concepts to understand how and why school districts receive public funding.

- The bulk of public funding for Wisconsin education comes from state aid and local property taxes. These revenues are determined largely by revenue limits, so from a pure fiscal resource point of view, i.e. how much money do school districts spend, the source (state aid or property taxes) is largely inconsequential.

- Funding from state aid and local property taxes, in general, may be budgeted within districts at the discretion of the district.

- State categorical aid funds specific programs, and it is sent to districts either through a grant or through a formula based on the number of students in a district qualifying for a specific program (such as free lunch). Categorical aid does not count against revenue limits, meaning receiving categorical aid does not lower the tax levy. Categorical aid is difficult or impossible to carry over from one year to another.

- Like state categorical aids, federal aid to education is primarily for specific students (i.e. low-income and special needs) or specific programs (i.e. free and reduced-price lunch). Federal aid also does not count against revenue limits.

- Most but not all aid received by school districts is spent on district pupils. Students in private schools receive some of the federal title funds sent to school districts and some state transportation aid. In addition, the community service levy revenue is generally spent on community programming, though some money from this fund can be used creatively for things like employee salaries and benefits.⁷⁰

Conclusion

The next section of this report will build on these five basic concepts, explaining the revenue and budget process from the points of view of school districts and DPI. The final two sections will look specifically at school choice programs, and at the interaction between the equalization aid formula and three Wisconsin districts.

4. Process and Timeline

The previous sections of this paper reviewed basic concepts, revenues and allocations from a statewide perspective. This section looks closer at the logistics of school finance from the perspective of school districts, first, by briefly describing deadlines in the legislative process, and second, by describing the reports filed over the course of a fiscal year by Wisconsin school districts.

Key Actions in State Budget Development

Wisconsin's budget is biennial, meaning the important legislative decisions determining state education aid, and revenue generating authority, for school districts are made once every two years as part of the budget process. The actual creation of the state budget is a political and often messy affair, however the landmark events that lead up to the final budget bill are straightforward. The following is a description of the five most important events.

Agency budget requests. In June of every even-numbered year, Wisconsin's state agencies, including the Department of Public Instruction are told by the Department of Administration to prepare their budget request for the next biennium.⁷¹ Agencies are generally given instructions on how to prepare their budget requests. For example, an agency might be told to reduce spending across the board by 10%, or to reduce total staffing by a given number of positions. Though agencies engage in budgeting decisions on a daily basis, the budget request generally kicks off the state budget process. Under state law, the secretary of the DOA must submit each agency's total budget request to the governor and Legislature by Nov. 20. Hence, agencies must have their requests finished prior to Nov. 20.⁷²

Governor's executive budget. Agency requests are reviewed by analysts at DOA and are then usually used as resources in the construction of the governor's executive budget. Under state law, that document is released when the governor gives his or her budget address to the Legislature no later than the last Tuesday in January in odd-numbered years.⁷³ However, the governor can request an extension, which is always accommodated. The executive budget in turn is used to craft a budget bill that is sent to one house of the Legislature for introduction, and then to the state's Joint Committee on Finance.

Joint Committee on Finance actions. The JCF is a 16-member committee made of eight senators and eight representatives.⁷⁴ It is the committee's responsibility to vote on legislation that appropriates revenue or changes taxation policies. The JCF first holds hearings on the

budget. State agencies give the JCF presentations. Often the JCF holds hearings throughout the state to obtain public input on the budget. Generally this process is lengthy. Next, the JCF goes into executive session during the spring and summer of odd-numbered years to vote on specific budget items. This process is guided by a series of budget papers produced by the Legislative Fiscal Bureau that present committee members with various decisions from which to choose in specific policy areas. Once the JCF finishes its work, the updated budget bill is sent to the Assembly for passage. In 2011, JCF completed this task on June 13.⁷⁵

Passage in the Assembly and Senate. Once the budget bill is sent to one house of the Legislature, it is treated like any other piece of legislation. That house holds a floor debate where amendments are offered, and the bill is eventually passed and sent to the other house. Once there, the Senate (or Assembly) can vote to concur with the Assembly's (or Senate's) vote or offer its own amendments. If the Senate passes a different version of the budget than the Assembly, a conference committee consisting of members of both houses can be convened to reconcile the differences. Once a final bill is agreed upon, it is sent to the governor for his or her signature.

Note that during both the JCF process and the Assembly and Senate debates, there is a considerable lobbying effort by special interest groups throughout the state, including those specifically interested in K-12 education spending. Lobbying groups interested in school finance include the Wisconsin Education Association Council, district administrative associations, local districts, local teachers unions, the Wisconsin Association of School Boards, school choice supporters and local municipalities.

Vetoes and signing of final budgets. The governor is empowered to make partial vetoes of the bill if desired. Note that the partial veto power given to the Wisconsin governor makes him or her one of the most powerful governors in the country. Once the bill is signed, it is published and becomes law. The goal is for the budget to be enacted by July 1, which is the start of the new fiscal year. In practice this does not always happen. In 2007, for example, the budget bill was not enacted until Oct. 26.⁷⁶ In Wisconsin, failure to pass a new budget in time does not result in a government shutdown; instead the state continues operating and spending as if the former budget were still in place until a new budget bill is enacted.

The five actions described briefly explain how Wisconsin's state budget, whose largest piece by far is state education aid, becomes law.⁷⁷ School districts must constantly monitor the budget process in order to make informed

estimates of their own budgets. The next section takes a closer look at the specific reports that school districts must produce when developing their own budgets.

School District Reporting During the Fiscal Year

The Wisconsin Department of Public Instruction helpfully lists in detail the key reports submitted by school districts each month on a web page titled *Summary: Important Dates to Remember*.⁷⁸ In addition, DPI maintains a database of all forms that might be filed by school districts over the course of a year.⁷⁹ A description of the most important reports filed to DPI are included in Appendix II of this report. However, for purposes of understanding school finance in Wisconsin, it is enough to know that districts report several basic types of information to DPI:

- **Transparency information.** All school districts submit detailed budgets showing revenues, expenditures, and liabilities.
- **Enrollment information.** DPI needs to know district enrollments in order to calculate payments to school districts. In addition, districts need to know these figures to develop informed revenue estimates for the next year.
- **Detailed tax levy and state aid information.** These numbers are necessary for DPI to calculate future revenue limit authority.
- **Information to verify categorical aid eligibility.** DPI receives detailed reporting in order to generate categorical aid payments to qualifying districts.
- **Audited information.** Many of the reports described in Appendix II are either verification of district-generated numbers reviewed by an outside auditor, or forms that reconcile a district's reporting with that of other districts.

Of course, the filing of these reports is merely the final product of the daily budgeting work performed by school district business managers and staffs. Much of the work in generating these reports (and others) is in developing systems to collect information within the school district, actually collecting information, verifying the accuracy of information, and of course producing a budget. This work has varying levels of public transparency; many, but not all, districts routinely post these reports on local district web sites.

Conclusion

The preceding section reviewed the basic process by which school districts determine their revenue, revenue sources and spending during their budget development processes. The diversity of categorical aids, the reality of referendum votes and the density of federally aided special needs and low-income students make the budgeting process for every Wisconsin school district uniquely complex in a manner that is impractical to describe here. However, this basic overview should give the reader an idea of how school districts receive information essential to developing their operation budgets.

5. School Choice Programs

The first four sections of this report focused on public education in its traditional form. However, Wisconsin has several school choice programs that use public funds to pay the cost of education in ways that differ from traditional public schools. Though most prominent in Milwaukee, these programs impact students throughout the state. Understanding the way specific programs are funded is necessary for a full portrait of Wisconsin's education finance system. The following pages will briefly describe, give a history and explain the funding for five publicly funded education programs that affect school finance in Wisconsin. In addition, an explanation of what is commonly referred to as the funding flaw in Milwaukee is provided.⁸⁰

Open Enrollment Program

Open enrollment, enacted in 1997, allows Wisconsin students to attend any school district in the state. Under the program, parents send an application directly to the district that they want their child to attend. Districts receiving students under this program may screen applicants for past behavior and attendance problems, as well as special needs status. Districts may also limit the number of available seats, and prevent students from leaving under this program if it reduces the racial balance of their student body. The Madison Metropolitan School District in particular has denied open enrollment transfers of white students using this provision.⁸¹

Students may use open enrollment on either a part-time or full-time basis. Part-time open enrollment allows high school students to take up to two courses per semester outside of their school district. Under part-time enrollment,

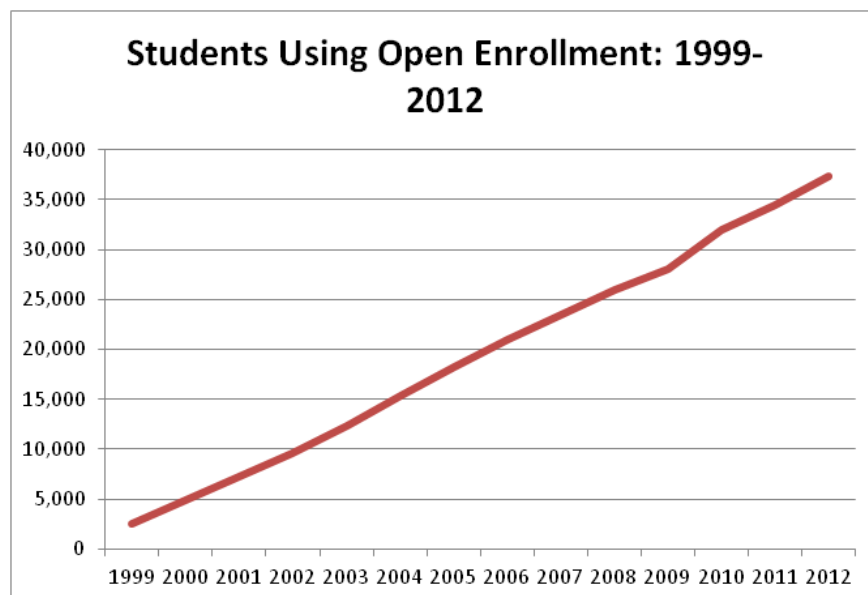
sending school districts simply pay tuition to the receiving school district.⁸²

The funding of full-time open enrollment program students is slightly more complicated. First, the student's (home) district is allowed to count the student for equalization and revenue limit purposes. Second, the (home) district sends a payment, calculated by DPI, that is "equal to the statewide average per-pupil school district costs for regular instruction, co-curricular activities, instructional support for services, and pupil support services from the prior school year" to the receiving district.⁸³

In 2011-'12, the transfer payment was \$6,867. Note that if a sending district does not receive enough state aid to cover the total cost of its transfer payments, the state funds the difference through the state tuition categorical aid. In 2011-'12, a total of \$217.6 million was transferred between school districts to fund 37,332 student transfers.⁸⁴ As shown in Figure 5.1, the number of students using open enrollment has increased steadily. The districts losing the most students (over 500) are urban: Milwaukee, Green Bay, Madison and Racine. The districts gaining the most students via the program are the suburban districts surrounding those cities.

A subset of students using open enrollment attends virtual schools. These are district-authorized public charter schools that enroll students virtually using the state's open enrollment law. Students using open enrollment to attend a virtual school are funded in the same manner as other open enrollment students. In 2011-'12, 4,900 students attended a virtual school. In 2012-'13, 29 virtual public schools were open in Wisconsin.⁸⁵

Figure 5.1



Chapter 220 Racial Integration Program

The Chapter 220 program provides integration aid to school districts for students who increase the racial balance in a school district or attendance area by transferring schools within a district, or by transferring from MPS to a suburban district. The program was enacted in 1975, spurred by a long-simmering desegregation lawsuit that culminated in the 1976 Reynolds decision, which declared Milwaukee schools to be intentionally segregated.^{86 87}

As mentioned, both students moving within a district and those moving across districts generate integration aid when certain conditions are met. Within a district, minority students transferring from an attendance area with 30% or more minority enrollment to an attendance areas with 30% or less minority enrollment (or vice-versa) generate an extra .25 in membership per pupil for purposes of generating equalization aid. In other words, additional state aid comes to the district for each of these pupils. However, this aid does count toward revenue limits, meaning in practice it simply lowers the allowable tax levy for the school district. In 2011-'12, 28,504 pupils generated \$39,470,800 in integration aid under this portion of the Chapter 220 program for the school districts of Milwaukee, Madison, Racine and Wausau.⁸⁸

In Milwaukee, minority pupils can use the Chapter 220 program to attend school in 23 suburban Milwaukee districts. In addition, white pupils may use the program to attend MPS. When a student transfers school districts under the Chapter 220 program, both the sending and receiving district are affected. The district the student leaves continues to count the pupil as .75 of its membership,

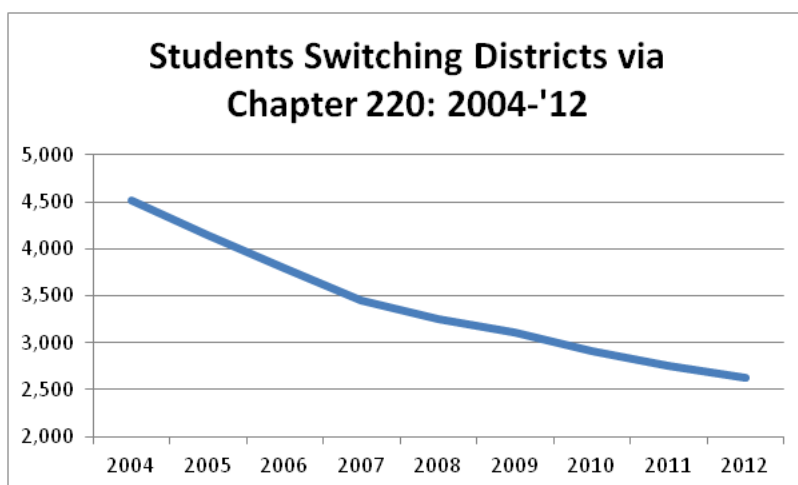
meaning the sending district receives state aid and revenue limit authority for a pupil it is not educating. The receiving district, which is educating the pupil, receives integration aid for each pupil equal to the average net cost per pupil in the district.⁸⁹ The average aid per pupil in 2011-'12 was \$10,888.⁹⁰ In total, 24 school districts received \$28,657,700 in integration aid in in 2011-'12 for students transferring between school districts.⁹¹ Funding is paid one year in arrears, meaning each district is reimbursed for the cost of educating the child from the sending district one year after the education has been provided. Importantly, Chapter 220 funding is counted toward revenue limits, meaning it generally provides tax relief to districts and not additional spending.

As shown in Figure 5.2, the number of students transferring districts via the Chapter 220 program is steadily decreasing for a number of reasons, including the increase in use of the open enrollment program. In general, the number of students using Chapter 220 to attend MPS has remained just over 300, however fewer students annually are using Chapter 220 to leave MPS.

In summary, the Chapter 220 program gives the school districts in Milwaukee, Madison, Racine, Wausau and suburban Milwaukee incentives to increase racial balance by giving them:

- State aid (which lowers the tax levy) when a pupil transfers to their district
- State aid and revenue limit authority when a pupil transfers from their district
- State aid (which lowers the tax levy) to move students within the district

Figure 5.2⁹²



Milwaukee Parental Choice Program and the Parental Private School Choice Program

The Milwaukee Parental Choice Program (MPCP) in the city of Milwaukee and the Parental Private School Choice Program (PPSCP) within the boundaries of the Racine Unified School District allow low- and middle-income pupils (those from families earning 300% or less of the federal poverty level, which will be \$70,947 for a household of four in 2013-'14) to attend participating private schools at public expense. Participating schools must have a variety of required policies in place and meet a set of fiscal regulations to participate. Regulations include:

- Accreditation from an agency listed in the state statutes within three years of program participation
- Pre-accreditation screening for new schools
- An independent fiscal audit
- Public release of school policies
- A list of all school board members with contact information

In addition, students in the program must take the same standardized tests as public school students, and their scores must be released. Participating schools may be located anywhere in the state. Schools receive the lesser of a school's audited per-pupil cost or \$6,442 per pupil.⁹³

Funding for both programs comes from variety of sources, but is slightly different for each program. Figure 5.3 illustrates the breakdown of program-specific MPCP funding by source in 2011-'12. In total, \$143,835,043 in state and local funds was spent on the 22,327.70 (FTE) students using the MPCP in 2011-'12 (See Table 5.1).

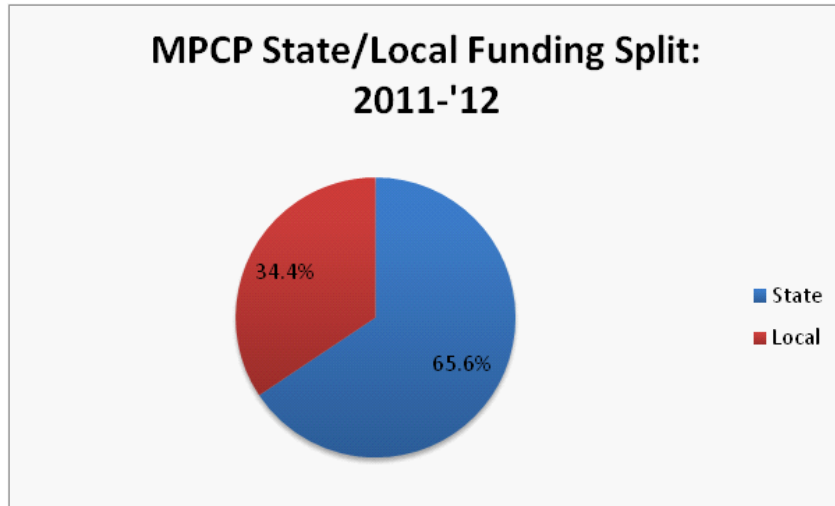
Under state law, 38.4% of the total cost of the MPCP is funded through a reduction in general school aids to MPS. However, MPS is allowed to (and does) levy to offset the aid reduction. In other words, MPS does not lose any total revenue from the MPCP because it passes the cost on to Milwaukee taxpayers. In addition, any poverty aid sent to MPS must be used to offset a portion (\$5.8 million dollars in 2012-'13) of this tax levy.⁹⁴ The amount of poverty aid varies by year, but in 2011-'12 MPS received \$5.8 million (4% of the total costs of the MPCP) under this provision. This reduced the tax levy and decreased the total local taxpayer support of the MPCP to 34.4%.^{95 96}

The largest source of MPCP funding is state general purpose revenue. Under state law, 55% of the cost of the program is borne by the state's general fund. A small percentage of the total cost of the program, 6.6%, comes from general school aids in the form of a payment from DPI to the city of Milwaukee that must be used to offset a portion of the MPCP tax levy. In total, the MPCP cost \$143.8 million in 2011-'12. Those costs are broken down in Table 5.1 below.

Table 5.1 – MPCP Source Funds, 2011-'12

Source	Amount	Percentage
MPS aid reduction	\$49,435,464.67	34.4%
General school aids	\$9,493,112.86	6.6%
State GPR	\$79,109,273.87	55%
Poverty aid	\$5,797,192.00	4%
Total	\$143,835,043.40	100%

Figure 5.3



The PPSCP program is funded in a simpler manner than the MPCP. Equalization aid to the Racine district is reduced to fund 38.4% of the program (\$594,000 in 2011-'12), and the rest, \$1,546,875, is funded from a direct appropriation from the general fund.⁹⁷ Because the PPSCP was capped at 250 pupils in 2011-'12, but is no longer capped beginning in 2013-'14, those numbers are likely to grow.⁹⁸

Independent Charter School Program

Wisconsin's Independent Charter School program allows three independent entities — the city of Milwaukee, the University of Wisconsin-Milwaukee and Milwaukee Area Technical College — to authorize nondistrict charter schools in Milwaukee. One independent authorizer, UW-Parkside, is authorized to charter a single public school in Racine. Even though independent of public school districts, these independent charter schools are public schools and may not screen students prior to admission. Parents apply directly to the school they wish their child to attend, and schools accept students via random lottery. Each student attending a charter school generates \$7,775 in program specific funding for the school he or she attends. In 2011-'12, 6,863 students (membership) generated \$53,398,700 in payments to 19 independent charter schools.⁹⁹

Independent charter schools are funded through an equal percentage aid reduction for every Wisconsin school district. School districts are empowered to offset the aid reduction through their property tax levy, which the majority of school districts do. In 2011-'12, the equal aid reduction was set at 1.3%, meaning every school district in the state had its equalization aid reduced by 1.3% to fund the independent charter school program.¹⁰⁰ Notably, students in these schools are not counted by any school district for aid or revenue limit purposes.

Milwaukee Funding Flaw

The "funding flaw" in Milwaukee is commonly understood as the impact on Milwaukee property taxes of not counting students in the Milwaukee Parental Choice Program (MPCP) and Independent Charter School program as part of MPS membership for purposes of property valuation. Counting these students would result in a lower per-pupil property valuation, which would increase state education aid to MPS, and correspondingly lower the MPS tax levy.

Originally, the funding flaw was defined by Milwaukee Mayor Tom Barrett as the higher per-pupil Milwaukee taxpayer cost of students using the MPCP compared to students using MPS. However, since 2008-'09 the cost to a Milwaukee taxpayer of an MPCP pupil has been less than the cost of an MPS pupil.

In 2011, the net impact of the flaw as currently defined was \$35.6 million. Below is specifically how that number is calculated:

1. When a student transfers to the MPCP from MPS, there is an initial savings to the Milwaukee taxpayer, because the per-pupil local property tax for a MPCP pupil is lower (\$1,994 in 2010-'11) than the per-pupil local property tax for a MPS pupil (\$2,951 in 2010-'11). In other words, each student switching from MPS to the MPCP saves Milwaukee taxpayers \$957. So initially the choice program saves Milwaukee taxpayers \$19.4 million (20,300 students X \$957).

2. However, once students are in the MPCP, they are also no longer counted in the district's per-pupil property valuation calculation despite being supported in part by the MPS levy. Counting these students for purposes of property valuation would lower MPS' per-pupil property

valuation significantly, driving up state aid for MPS pupils and lowering the tax levy in Milwaukee. The total equalization aid to MPS would have increased by \$55 million in 2010-'11 if the MPCP pupils were counted for aid valuation.

3. \$55 million minus the savings for the lower per-pupil cost of MPCP pupils (\$19.4 million) equals the \$35.6 million dollar flaw.

4. Hence, the Milwaukee taxpayer would, on aggregate, spend less if MPCP students were in MPS.

Notably, the “funding flaw” does not reduce the amount of money MPS can spend; it only causes more of that money to come from local taxpayers rather than state aid. The only true fix for the funding flaw, as it is currently understood, is to count the portion of MPCP and independent charter school students supported by Milwaukee taxpayers for purposes of determining property valuation. Doing this would shift over \$50 million in state aid to MPS from non-MPS districts.

Any school district that supports a portion of the cost of educating students who are not counted in their district for purposes of property valuation has a funding flaw akin to that faced by Milwaukee. Because every Wisconsin school district funds charter school pupils who are not counted for property valuation, every Wisconsin school district can legitimately claim to have a funding flaw. However, the uniquely large number of uncounted pupils in Milwaukee supported by the local levy makes the issue particularly acute for Milwaukee taxpayers.

Conclusion

The continued growth of school choice programs in Wisconsin expands the definition of public education in the state. The existence of these programs, while providing options for parents, means unique funding challenges, as each program must coexist with a school funding system enacted prior to its existence. Hence, issues like funding flaws might be better described as necessary imperfections caused by the grafting of new education funding models on an existing school funding formula.

The specific funding mechanisms described in this section are somewhat complicated. However, a basic understanding of the public funding of school choice programs can come from learning a few key concepts:

- Both the sending district and the receiving district benefit from integration aids (Chapter 220). The sending district receives funds for students it does not educate,

and the receiving district receives state aid and subsequent property tax relief.

- Open enrollment is funded through a transfer payment from a sending district, which receives funding for the pupil by counting him or her for aid purposes, to the receiving district, which receives funding through the transfer payment.

- The state’s two private school choice programs have minimal fiscal impact on school finance outside of Milwaukee and Racine. They are funded primarily through state general purpose revenue and local property taxes outside the equalization aid formula. Accordingly, changes in funding for the Milwaukee and Racine choice programs do not directly affect the aid received by public school districts.

- Independent charter schools and private schools serving students through the MPCP and PPSCP receive payments four times a year.

- The funding flaw, as it is commonly known, relates to local taxpayers funding a portion of students not counted in their local district’s per-pupil property valuation. Importantly, the flaw does not reduce total revenue-generating authority for school districts.

The existence and continued growth of school choice programs in Wisconsin begs the question, what is the fiscal impact of students using these programs? Or, how are the state, school districts and property taxpayers impacted when students switch schools? The next section of this report will answer these questions, and it also will take a closer look at how the fundamentals of the state equalization aid formula worked and/or changed in three Wisconsin districts at two points in time.

6. What Happens When a Wisconsin Student...?

The complexities of Wisconsin's school finance system are largely rooted in the reality that the variables driving the system are constantly changing. For example, the Legislature might increase or decrease funds for general school aids in the next budget, or change the annual per-pupil revenue limit increase. Or, more or fewer students might enroll in independent charter schools. Or, demographic changes might significantly increase enrollment in a school district. Or, property values in a community may drop dramatically, increasing a district's share of equalization aid.

Because of this complexity, it is often difficult to predict exactly what will happen when a variable changes in a single district; such a prediction requires knowledge of what is happening in districts across the state as well as in the Legislature. However, it is possible to better understand the pieces of this puzzle by learning what happens when students enter and leave different school types (assuming all else is equal), and by checking if the fundamental workings of the school aid formula are substantially different in 2012 than they were in 2000. Let's first address the question: What happens when students enter and leave certain school types?

What happens when a Wisconsin student... enters a public school district for the first time?

Because the state's equalization aid formula is dependent on data from the previous year, little beyond being included in the district's enrollment count occurs in the first year. Importantly, if a student is entering as a part-time kindergarten student, the student is generally counted as 0.5 (FTE) student. However, assuming the student is entering full-time, the district's membership count will fully reflect that student over the next two years. Because of three-year enrollment averages, the full effect of the student for purposes of membership is phased in over time as shown:

- Year 1: .33 (FTE)
- Year 2: .66 (FTE)
- Year 3: 1.00 (FTE)

Once a student is reflected in the membership count, he or she generates revenue for the following year. So, for example, if a student is fully reflected in the membership

count and the district's per-pupil revenue limit is \$10,000, that student generates up to \$10,000 in a combination of state aid and local property taxes. In addition, this student is reflected in the district's per-pupil property valuation, which determines how much of the allowable revenue comes to the district in the form of equalization aid.

Assuming everything else is equal, a new student will decrease the district's per-pupil property valuation and in turn increase the percentage of the district's revenue that comes from equalization aid while decreasing the percentage that comes from property taxes. In addition, the new student will generate any federal aid or state categorical aid for which he or she qualifies.

What happens when a Wisconsin student...leaves a district for good or moves from one public school district to another?

When a student graduates, transfers to a private school, drops out, or moves out of state he or she will, over the course of three years, no longer be reflected in that district's membership count. Accordingly, the district will cease to receive revenue limit authority for that pupil, will no longer include the pupil in its per-pupil property valuation calculation, and will no longer receive categorical aids for that pupil. If the pupil transfers to another Wisconsin public school district, that district will gradually include that student in its membership count over time just like any new student.

The statewide fiscal impact of a student transferring between districts is dependent on the per-pupil revenue limits of a district losing or gaining the student. If the student leaves a district with a higher per-pupil revenue limit for a district with a lower per-pupil revenue limit, the state on whole — because of the lower state aid and property tax cost in the new district — will save money (or will pay more if the student transfers from a district with a lower limit to one with a higher limit). However, the nature of the savings is dependent on the property taxes and state aid distribution in each district.

In general, rural Wisconsin districts are disproportionately suffering from declines in enrollment.¹⁰¹ In contrast, suburban and small city districts are disproportionately experiencing enrollment increases.¹⁰²

What happens when a Wisconsin student...enters a voucher program?

When a student enters a Wisconsin voucher program, that student generates an immediate state general purpose revenue cost, and an immediate taxpayer cost in Milwaukee or Racine. In addition, if that pupil is coming from a public Wisconsin school district, the pupil remains, at least partly, in the district's membership count for three years because of three-year enrollment averages. This situation is not unique to students leaving to use vouchers; any student who leaves a district remains part of its membership for the next three years.

However, once three-year enrollment averages expire, a student switching from a Wisconsin public school district to a voucher program saves state taxpayers money. According to the School Choice Demonstration Project, the Milwaukee Parental Choice Program saved state taxpayers over \$30 million dollars in 2010.¹⁰³ The reason for overall savings is straightforward — a student using a voucher in Milwaukee will cost state and local taxpayers on whole significantly less (\$6,442 in 2012) than the revenue generated under revenue limits if the student were in public school (MPS's revenue limit was \$9,799.66).¹⁰⁴ However, the specific property taxpayer impact is more complicated, causing the net savings from voucher programs to be isolated to districts outside of Milwaukee and Racine.

For example, if a student leaves MPS for the MPCP, Milwaukee taxpayers will pay slightly more than if the student stayed in MPS. The reasons for this are tied to the equalization aid formula. At first glance, when a student transfers to the MPCP from MPS there is actually a savings to the Milwaukee taxpayer, because the per-pupil local property tax for an MPCP pupil is lower (\$1,994 in 2010-'11) than the per-pupil local property tax for an MPS pupil (\$2,951 in 2010-'11).¹⁰⁵ In other words, each student switching from MPS to the MPCP saves Milwaukee taxpayers \$957. (Notably this was not always the case, and the since-reversed higher local cost of the MPCP compared to MPS was the original definition of the "funding flaw" discussed earlier.)¹⁰⁶

However, when students leave MPS, they are also no longer counted in the district's per-pupil property valuation calculation. This raises Milwaukee's per-pupil property valuation, decreases the percentage of district revenue that comes from general school aids, and increases the percentage that comes from the property tax. Currently, the per-pupil fiscal impact of not counting students in the choice program for purposes of property valuation is

higher than the savings from the lower per-pupil taxpayer cost. Hence, the Milwaukee taxpayer would, on aggregate, spend less if MPCP students were in MPS. The city of Milwaukee estimates that in 2011, the negative taxpayer impact of the MPCP was \$35.6 million.¹⁰⁷

What happens when a Wisconsin student...leaves a voucher program?

When a student leaves a voucher program for any reason, he or she ceases to generate a payment for his or her private school. There is no three-year rolling average for Wisconsin's choice program, so the fiscal impact is immediate. The effect of a student leaving a voucher program in the middle of the year depends on the timing. If a student leaves before the third Friday in September count date, the student generates no funding through the voucher program. If a student leaves after the September count date but before the January count date, the student generates only the first two (of four) equal voucher payments. If a student leaves after the January count date, the student generates a full voucher payment.

Special circumstances exist if a student leaves the Milwaukee or Racine school choice program for MPS or RUSD after the third Friday in September because the participating private school closes. In addition to being counted in RUSD's January enrollment count or MPS' January or May enrollment count, MPS or RUSD receives the state share (61.6%) of any remaining voucher payments for the child. However, in 2011-'12, RUSD and MPS received no money under this provision.¹⁰⁸

What happens when a Wisconsin student...enters or leaves an independent charter?

A student entering an independent charter school generates a payment the same year he or she is enrolled in the independent charter school. Because the independent charter school program is funded through a statewide equal percentage aid reduction for all Wisconsin school districts, every new independent charter student reduces state aid, and, for the majority of districts that levy to the maximum available level, increases property taxes. The property tax increase is due to the fact that districts are empowered to offset the charter school aid reduction with the property tax. When a student leaves MPS for an independent charter school in Milwaukee, the effect

is similar to when a student leaves MPS for the MPCP; Milwaukee's per-pupil property valuation increases, which decreases its share of equalization aid and increases the cost to the local taxpayer if the district levies to the full extent of the law — which it does.

When a student leaves an independent charter school for any reason, he or she ceases to generate a payment for that school. There is no three-year rolling average for Wisconsin's independent charter program, so the fiscal impact is immediate. The effect of a student leaving an independent charter school in the middle of the year depends on the timing. If a student leaves before the third Friday in September count date, the student generates no funding through the program. If a student leaves after the September count date but before the January count date, the student generates only the first two (of four) equal charter payments. If a student leaves after the January count date, the student generates a full charter payment.

What happens when a Wisconsin student...uses open enrollment?

As explained earlier, the state's open enrollment program allows districts to include pupils who leave under the program in their membership counts, but requires districts to make a transfer payment to the receiving district. Because the student is counted in the resident district like any other pupil, the statewide fiscal impact is neutral. However, if a receiving district has a per-pupil revenue limit in excess of the open enrollment transfer payment, the district would be receiving less revenue for each open enrollment pupil than resident pupil, and vice-versa.

What happens when a Wisconsin student...uses chapter 220?

Because the Chapter 220 program provides incentives to both the receiving and sending school districts, new students using the program increase overall education costs in the state. The student's resident district continues to count the pupil as .75 in its membership, thereby generating revenue limit authority and lowering its per-pupil property valuation without having the cost of educating the student. The receiving district receives integration aid equal to the average net cost per pupil in the district, which is on average more than \$10,000.¹⁰⁹

The general rules of thumb for understanding the fiscal impact of students moving between districts or programs are:

1. Any change that increases the student membership count is beneficial financially for a school district, while

any change that decreases the student membership count is not.

2. Any student using a choice or charter program will on aggregate cost the state less than one enrolled in a traditional public school.

3. District level savings or costs across school districts for school choice programs differ.

Is the Equalization Aid Formula Broken?

It seems an almost annual occurrence that policymakers or interest groups will argue that the equalization aid formula is no longer working, that it is broken or unfair. The following subsection compares the behavior of the underlying concepts of the equalization aid formula in 1999-2000 with 2011-'12 to understand if the workings of the formula have indeed changed over time. Data from three districts are compared. (All data is publicly available from DPI.¹¹⁰)

The three districts examined are Ashland, Lancaster Community and New Berlin. All three districts serve K-12 students, but they serve students and communities with significant variations in wealth and size. In line with the fundamentals of the equalization aid formula discussed throughout this report, a closer look at all three districts should show that those with comparatively lower property wealth have comparatively higher levels of state support.

As illustrated in Figures 6.1 and 6.2, this clearly was the case in 1999-2000. The Lancaster and Ashland school districts had per-member property values well below state averages, while New Berlin had per-member property values well above state averages. Lancaster and Ashland school districts had state support well above the state average, while New Berlin had state support well below state averages. It should also follow that New Berlin raised significantly more property tax revenue per member than Ashland and Lancaster in 1999-2000. Indeed, as shown in table 6.1, New Berlin did.

Figure 6.1

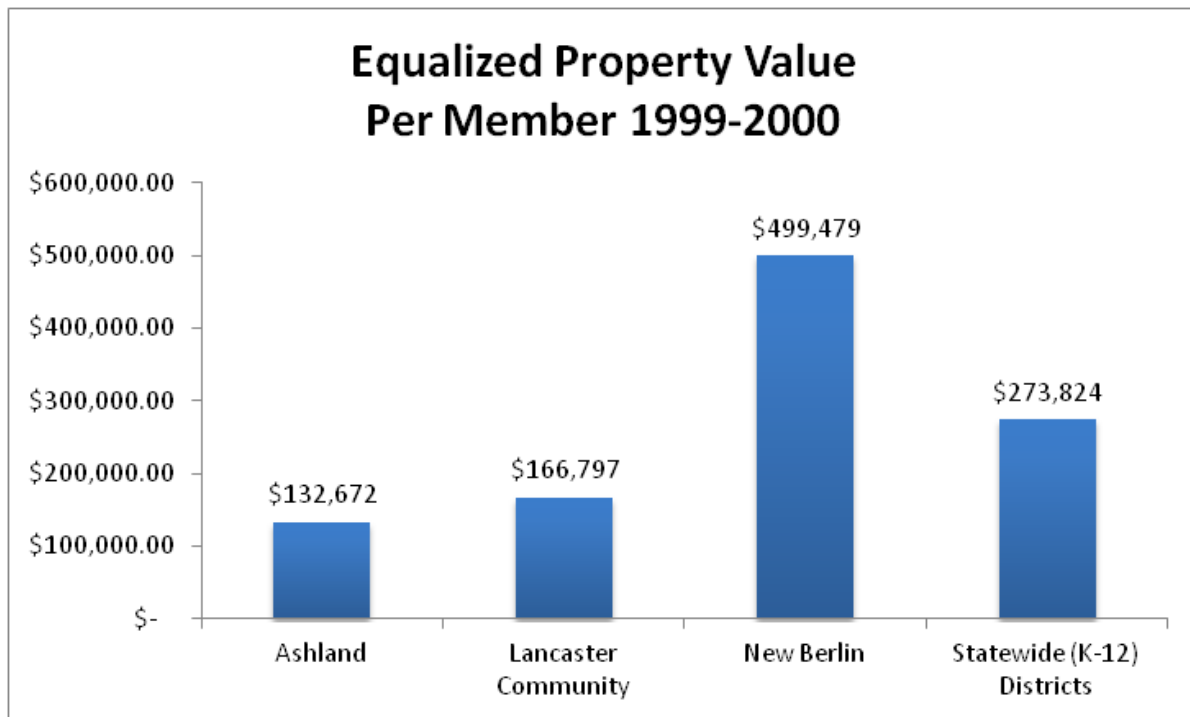


Figure 6.2

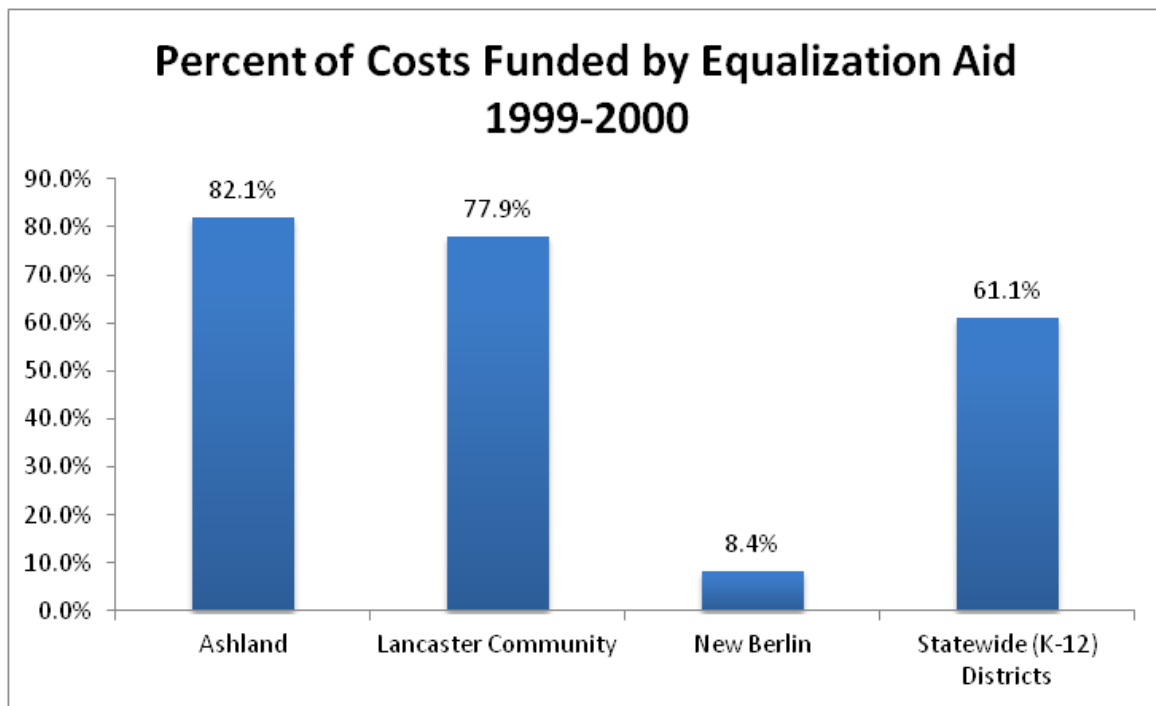


Table 6.1 – Property Tax Per Member, 1999-2000

	Levy per member
Ashland	\$1,428.93
Lancaster Community	\$1,824.56
New Berlin	\$8,067.16
Statewide (K-12) Districts	\$3,131.77

But do the fundamentals of the equalization aid formula still hold true in 2011-'12? As can be seen in Figure 6.3, the property value per-member distribution looks similar in 2011-'12 to how it looked in 1999-2000. New Berlin remains a property wealthy district, and Ashland and Lancaster still have below state average per-member property wealth. Accordingly, as shown in Figure 6.4, New Berlin receives very little equalization aid, while Ashland and Lancaster receive proportionally more than state averages.

Figure 6.3

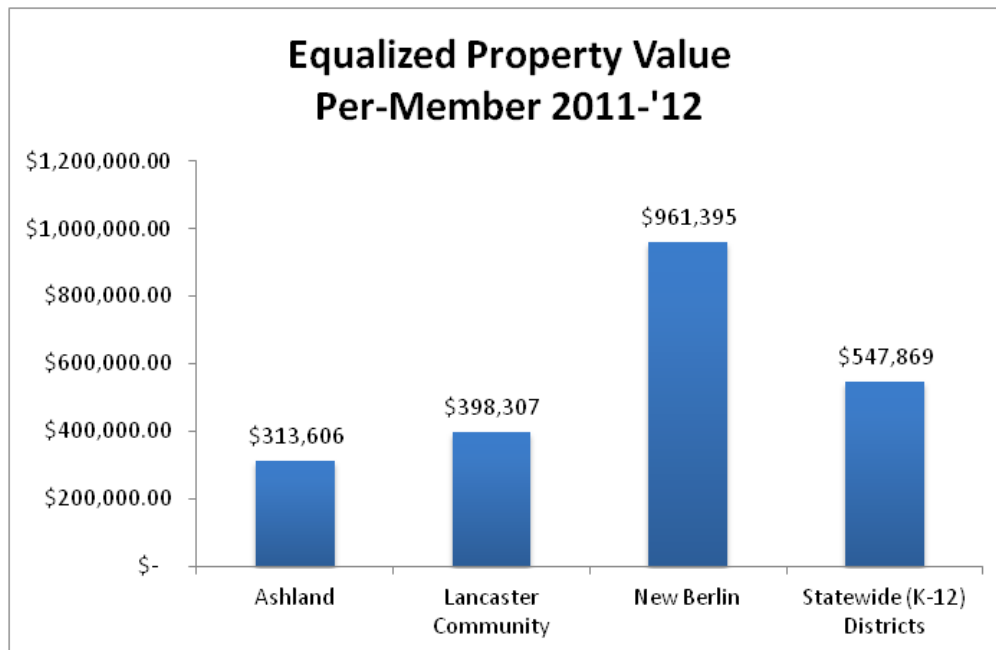


Figure 6.4

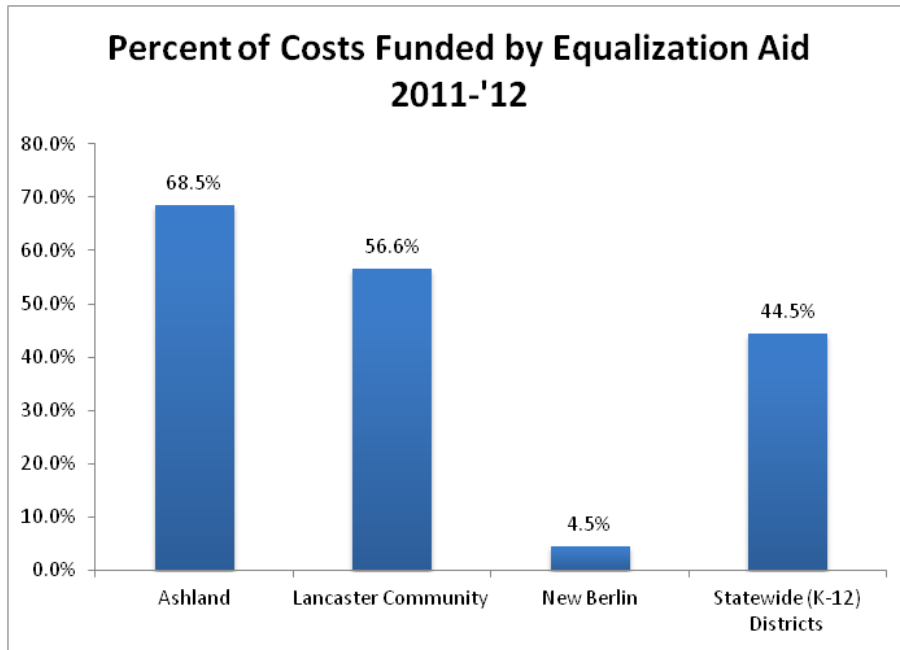


Table 6.2 – Property Tax Per Member, 2011-'12

	Levy Per Member 2011-'12
Ashland	\$2,596.17
Lancaster Community	\$4,241.35
New Berlin	\$9,826.12
Statewide (K-12) Districts	\$5,287.39

Also, as shown in table 6.2, New Berlin raised significantly more per member via the tax levy than Ashland and Lancaster. However, the gap between New Berlin and Lancaster has shrunk since 1999-2000, while the gap was maintained between New Berlin and Ashland. The reason for this change is that Lancaster voters in 2001 voted to allow the district to exceed its revenue limit by \$450,000 in 2001, and voted in 2007 to allow the district to exceed its revenue limit by \$1.3 million between 2007 and 2010.¹¹¹ Ashland passed no such referendums. Hence, the change

in the Lancaster tax levy was due to the will of voters, not the equalization aid formula.

Clearly the equalization aid formula is functioning similarly today to how it was in 1999-2000. The amount of equalization aid sent to districts is still inversely proportional to the property wealth of school districts; the formula continues to operate as designed. In other words, the fundamentals of the formula remain the same today as in 1999-2000. If it was not broken then, it is not broken now.

Conclusion

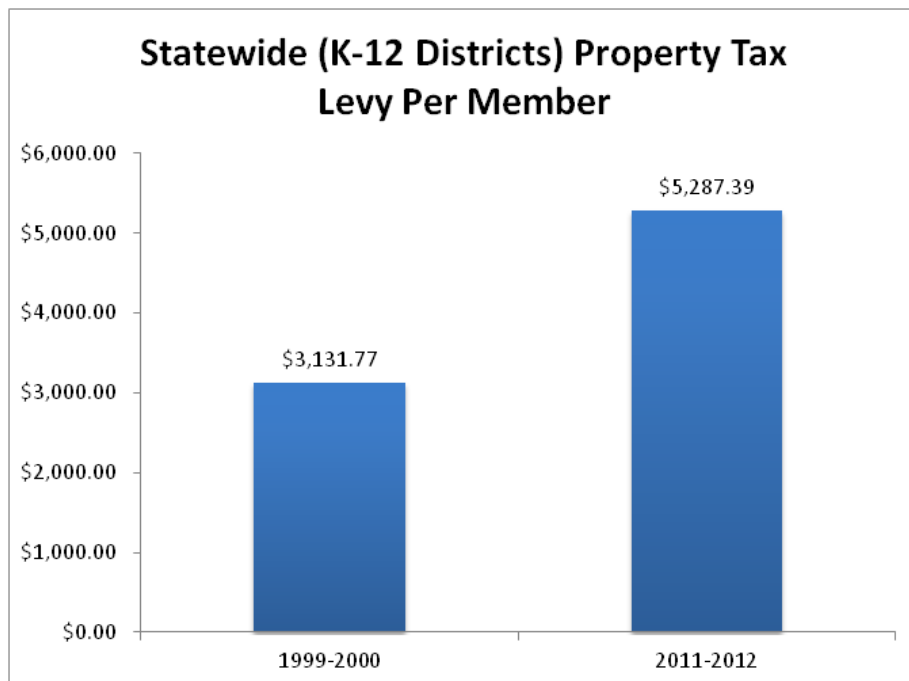
However, there have been changes in the relative amounts of equalization aid received by Wisconsin school districts. Table 6.3 lists the percentage of shared costs funded through equalization aid in the three districts in 1999-2000 and 2011-'12. In all three districts, the percentage declined. Statewide, less than half of districts' shared costs are funded by equalization aid, down from 61.1% in 1999-2000. Districts today are more reliant on the property tax (see Figure 6.5), and program-specific categorical aid funding than they were in 1999-2000.

Whether less funding for equalization aid is grounds for calling the equalization aid formula broken is up for debate and beyond the scope of this report. However, any changes to the equalization aid formula should keep in mind that the fundamental concepts of aid equalization for public school districts continue to function in the same manner as in the past. Programs such as school choice and charter schools are funded outside of the equalization aid formula and create district-level fiscal impacts only to the extent to which they change the membership, property valuation and tax levies of specific school districts. Like the worth of the equalization aid formula, the proper method for funding such programs is beyond the descriptive scope of this paper.

Table 6.3 – Changes in the Percentage of District Costs Funded by Equalization Aid

	1999-2000	2011-'12	Percent Change
Ashland	82.1%	68.5%	-16.6%
Lancaster Community	77.9%	56.6%	-27.4%
New Berlin	8.4%	4.5%	-45.8%
Statewide (K-12) Districts	61.1%	44.5%	-27.1%

Figure 6.5



7. Report Conclusions

Wisconsin's school finance system is constantly evolving. However, barring radical change, the fundamental principles and goals of Wisconsin's education finance system, as well as the underlying tension between local and state control of education finance, will remain constant. Hopefully, this report takes some of the mystery out of school finance by boiling down a complicated process to a few basic principles:

- The most powerful force in education finance is the status quo; increases in per-pupil spending are generally tied to what a district spent in the previous year.

- The tension between state and local control of education finance currently tips in favor of the state. Districts are told by the Legislature how much revenue they can raise, and may only exceed the amount by going directly to voters via referendum.

- The equalization aid formula is designed to ensure property wealthy districts receive comparatively less state aid than property poor districts. The formula accomplishes this task.

- Categorical aids fund specific programs for students in school districts; Wisconsin districts increasingly rely on this type of aid.

- State aid and the amount of revenue received by school districts are two separate concepts. Less state aid does not necessarily mean less overall spending.

- Revenue limits determine how much state aid and property tax school districts can receive and, in turn, spend. Revenue limits are the single most important concept for understanding how much total revenue school districts receive.

- Enrollment ultimately drives revenue and the state/local split of that revenue. Generally increasing enrollment is the No. 1 way a district can improve its fiscal health.

- The effects of the equalization aid formula are unpredictable for school districts because its fundamental operations are dependent on the amount of funding allocated for school aids by the Legislature, and on the enrollment and property value changes of districts throughout the state.

In addition to understanding these concepts it is important to have an eye to the changing landscape of school finance in Wisconsin. Over the next years the state will face many important questions, including:

- Is equalization of the tax base still the fundamental goal of the state school aid formula?

- Does the Wisconsin school finance system still hold constitutional muster as described most recently in the *Vincent v. Voight* decision, or does the continued growth of categorical aids and funding for programs outside the equalization aid formula put the system at legal risk?

- Is property wealth the optimal way to measure a school district's capacity to raise funds via the property tax?

- Are per-pupil revenue limit increases set by the Legislature too arbitrary, and should they be made more predictable?

- As school choice and charter programs expand, is it still logical or equitable to fund them separately from the equalization aid formula?

- Should some funding for schools and districts be allocated based on performance?

- What is the appropriate level of state funding for education, and should it come in the form of equalization or categorical aid?

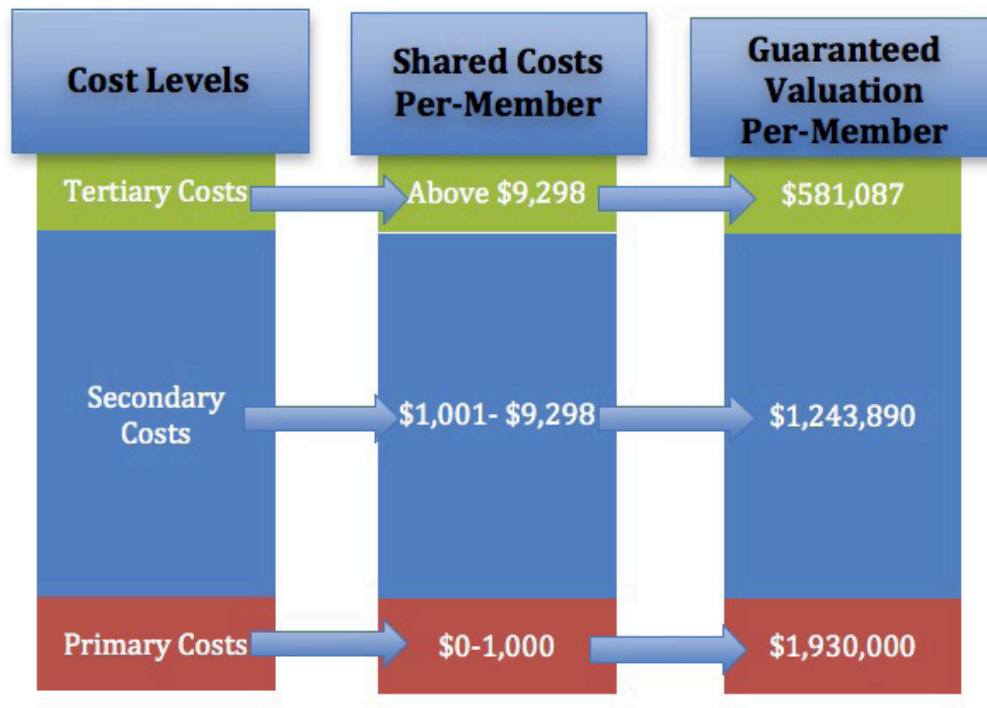
- Should the money spent on the school levy tax credit, as proposed by state Superintendent Tony Evers, be put into the equalization formula instead of being used directly for property tax relief?

- Perhaps the largest question for policymakers and the public alike is whether Wisconsin needs a new method for funding education that takes into account the evolving ways in which Wisconsin pupils receive publicly funded education.

Whatever the answers to these questions, it is crucial that those making school finance decisions as well as those affected by them have an intellectual base on which to make such decisions. Demystifying education finance is not only possible, it is necessary for ensuring that public dollars are invested in a fair, efficient manner that maximizes the quality of education received by Wisconsin pupils.

Appendix I — Specifics of Wisconsin's Equalization Aid Formula

Figure I – Wisconsin Equalization Aid Formula Cost Levels, K-12 Districts (2010-'11)



A hypothetical exercise helps illustrate the equalization aid process. For this exercise the following assumptions are made about a hypothetical school district in 2010-'11:

1. District membership is 500.
2. Shared costs per member are \$10,000.
3. Per-member property valuation is \$500,000.

Establishing the amount of equalization aid received by the district using these assumptions requires three calculations, one for each cost level.

Primary costs calculation. As stated earlier, primary costs are merely the first \$1,000 in shared costs incurred by a district. The guaranteed valuation per member at the primary cost level is \$1,930,000. Both the primary cost ceiling (\$1,000) and the guaranteed per-member property valuation are set in the Wisconsin statutes and do not change from year to year. The most important thing to remember about primary costs is that equalization aid generated at this cost level is guaranteed (in contrast, equalization aid generated at the secondary level can be reduced, as will be discussed). Calculating the amount of equalization aid generated at the primary cost level is a three-step process:

1. Establish the percentage of state support at the primary cost level. To do this we calculate the difference between the district's per-member property valuation and the guaranteed per-member property valuation, $1,930,000 - \$500,000 = \$1,430,000$, and divide this number by the guaranteed per-member property valuation. $\$1,430,000 / \$1,930,000 = .7409$. Hence the primary costs in our district are 74.09% state-aided.

2. Establish the district's total primary shared costs by multiplying per-member primary shared costs and membership. $\$1,000 \times 500 = \$500,000$.

3. Calculate equalization aid received by the district at the primary cost level by multiplying the total primary shared costs and the percentage of state support. $\$500,000 \times 74.09\% = \$370,466.32$. Hence, at the primary level, our district receives \$370,466.32 in equalization aid.

Secondary costs equalization. Unlike primary costs, both the secondary cost ceiling and the per-member guaranteed valuation at the secondary level vary from year to year. The secondary cost ceiling is annually set at 90% of the previous year's state average shared costs per member. The guaranteed per-member valuation at this cost level is dependent on available school aids; it is set to ensure that all available aids are distributed. Calculating

the amount of equalization aid generated at the primary cost level is also a three-step process:

1. Establish the percentage of state support at the secondary cost level. To do this we calculate the difference between the district's per-member property valuation and the guaranteed per-member property valuation, $\$1,243,890 - \$500,000 = \$743,890$, and divide this number by the guaranteed per-member property valuation. $\$743,890/\$1,243,890 = .5980$. Hence, the secondary costs in our district are 59.80% state-aided.

2. Establish the district's total secondary shared costs by multiplying per-member secondary shared costs ($\$9,298 - \$1,000 = \$8,298$) by membership (500). $\$8,298 \times 500 = \$4,149,000$.

3. Calculate equalization aid received by the district at the secondary cost level by multiplying the total secondary shared costs and the percentage of state support. $\$4,149,000 \times 59.80\% = \$2,481,248.03$. Hence, at the secondary level, our district receives $\$2,481,248.03$ in equalization aid.

Tertiary costs equalization. Tertiary costs are all shared costs above the secondary cost ceiling ($\$9,298$ in 2010-'11). The per-member guaranteed property valuation at the tertiary cost level is set annually at the statewide average per-member property valuation. A unique feature of the tertiary aid level is that districts can receive negative tertiary aid, which reduces their equalization aid received at the secondary level. Fewer than half (166 of 424 districts) received negative tertiary aid in 2012-'13.¹¹²

Calculating the amount of equalization aid generated at the tertiary cost level is also a three-step process:

1. Establish the percentage of state support at the tertiary cost level. To do this we calculate the difference between the district's per-member property valuation and the guaranteed per-member property valuation, $\$581,087 - \$500,000 = \$81,087$, and divide this number by the guaranteed per-member property valuation. $\$81,087/\$581,087 = .1395$. Hence the tertiary costs in our district are 13.95% state-aided.

2. Establish the district's total tertiary shared costs by multiplying per-member tertiary shared costs ($\$10,000 - \$9,298 = \$702$) and membership (500). $\$702 \times 500 = \$351,000$.

3. Calculate equalization aid received by the district at the tertiary cost level by multiplying the total tertiary shared costs and the percentage of state support. $\$351,000 \times 13.95\% = \$48,979.82$. Hence at the tertiary level our district receives $\$48,979.82$ in equalization aid.

Total equalization aid. Summing the equalization aid received at all three cost levels gives us the total equalization aid received by the school district: $\$370,466.32 + \$2,481,248.03 + \$48,979.82 = \$2,900,694.17$. Dividing this number by the district's total shared costs of \$5 million dollars shows that the district is 58% state-aided ($\$2,900,694.17/\$5,000,000 = .58$). The non-aided shared costs are paid for by the property tax levy.

Complicating factors. There are two additional factors that potentially affect the calculation of equalization aid by cost level. The first is the concept of negative tertiary aid. If a district's actual per-member property valuation is above the tertiary guaranteed per-member property valuation, negative aid is generated.

For example, say in the hypothetical district the actual per-member property valuation was $\$700,000$. Under the three-step process, the tertiary costs in our district would be aided at -20.46% ($(\$581,087 - \$700,000)/\$581,087 = -.2046$). Hence the district would receive $-\$71,828.25$ ($\$351,000 \times -20.46\%$) in tertiary aid. That amount would be reduced from the district's secondary equalization aid amount. However, the district's primary aid cannot be reduced, meaning if the negative tertiary aid was greater than the district's secondary aid, the district would lose only its secondary aid.

The second, more important factor is that different school district types have different per-member guaranteed property valuations. The numbers used in the hypothetical analysis are for K-12 school districts. K-8 school districts use guaranteed per-member property valuations of 1.5 times those used by K-12 districts, and Union High School districts use guaranteed per-member property valuations three times those used by K-12 districts.¹¹³ The guaranteed per-member property valuations of different district types are illustrated in Figures 2 and 3.

Figure 2 – Wisconsin Equalization Aid Formula Cost Levels, K-8 Districts (2010-'11)

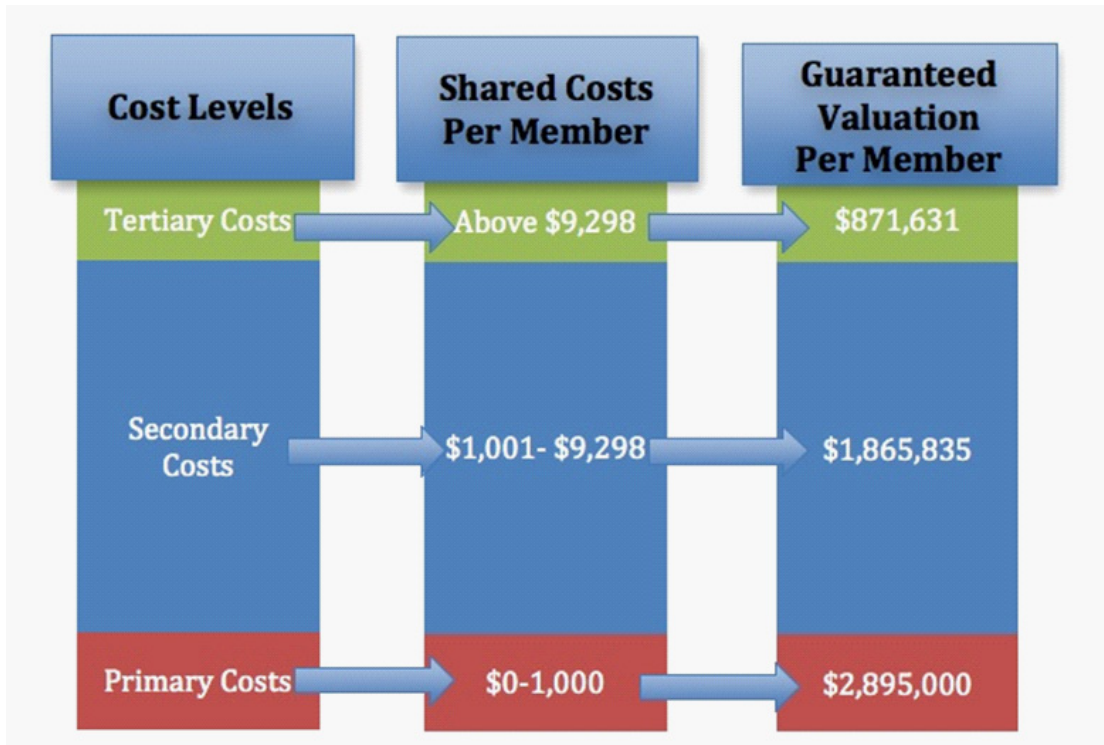
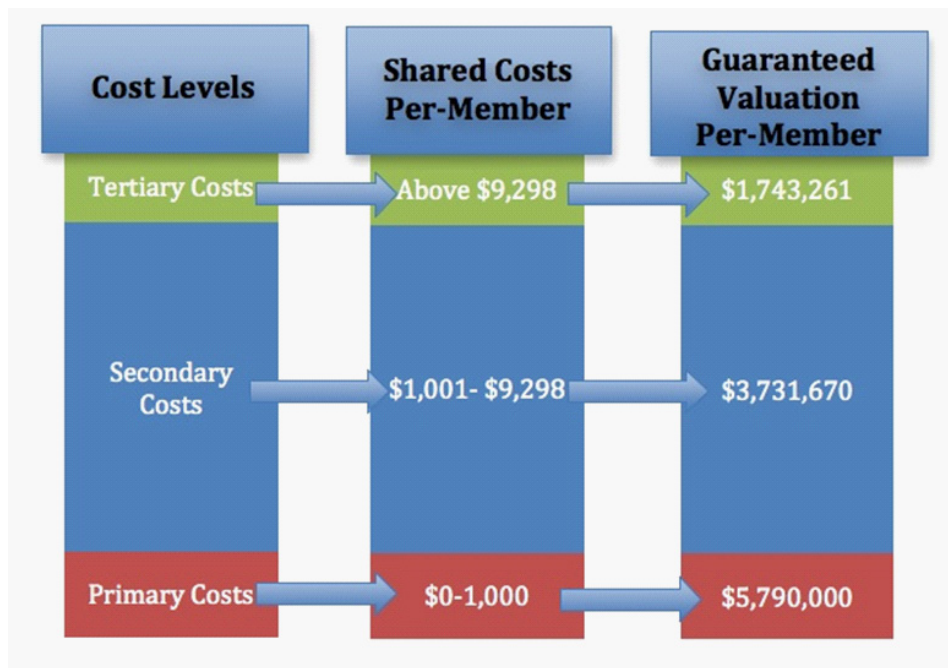


Figure 3 – Wisconsin Equalization Aid Formula Cost Levels, Union High School Districts (2010-'11)



Appendix II — Key Forms Filled Out by School Districts

The forms listed are broken down by month and by fiscal year to which they pertain. Forms listed under Year 1 are relevant for the current fiscal year, while forms listed under Year 2 are relevant to the next fiscal year. The list is not exhaustive; a district's reporting is dependent on its unique circumstances.

Fiscal Year Timeline of Key Reports Submitted by Districts to DPI

July

Year 1:

PI-5000 Transfer of Service Requests Part A. The PI-5000 documents are the means by which school districts request revenue limit exemptions for special needs and foreign language-speaking students who transferred into the school district mid-year.

August

Year 1:

PI-1547 Transportation Report. The PI-1547 is filled out online by school districts. The document determines the district's eligibility for the transportation categorical aid in the previous school year.

PI-1505-Calendar School Calendar Report. The PI-1505 calendar report shows DPI that the school district met the required days and hours of instruction for the previous school year.

PI-1505-Census School Census Report. This report serves as the basis for determining a district's eligibility for library aid, the amount of which is determined by the number of 4- to 20-years-olds living in the school district.

PI-1505-AC District Aid Certification Report. This report is a full accounting of a school district's general fund, debt-service fund and capital fund for the previous school year. It contains totals for all the aid received by a district in the previous school year.

PI-5000 Transfer of Service, Part B. The PI-5000 documents are the means by which school districts can request revenue limit exemptions for special needs and foreign-language-speaking students who transferred into the school district mid-year. Part B requires districts to reconcile their

data with the data submitted by other districts.

September

Year 1:

PI-1505-SE Special Education Annual Report. This report contains actual special education costs incurred by the district in the previous school year. It generates special education categorical aid to school districts.

PI-1506-AC Auditor Aid Certification Report. This report is the auditor review of the AC District Aid Certification Report submitted in August. The amounts of aid on both of these reports must be in agreement.

PI-1506-FB Audited Fund Balance Report. This report contains the fund balance of a school district after it has been audited. It ensures the fund balances reported to DPI by school districts are accurate.

October

Year 1:

PI-1505 Full Annual Report. The full annual report contains comprehensive fiscal information, including fund balances, revenues, expenditures and liabilities for the previous school year.

PI-1524 State Tuition Claim. This form is filed by districts with students eligible for state tuition aid in the previous school year (defined in Section 3 of this report).

Year 2:

PI-1804 & 1805 Summer School Reports. These reports inform DPI of the enrollment in district summer school programs, which is a key determinant of aid for the next school year.

PI-1563 Third Friday in September Pupil Count Report. The PI-1563 informs DPI of the third Friday in September enrollment for the current school year, which is a key determinant of aid for the next school year.

PI-1588 Supplemental Aid Claim. This form is filled out by districts that qualify for the supplemental categorical aid. Currently only one school district receives this aid.

November

Year 2:

PI-401 Fall 2011 Tax Levy Certification Report. The PI-401 reports to DPI the school district tax levy broken down by fund. This information is necessary for calculating a district's levying authority for the next school year.

December

Year 1:

PI-1570 Special Education High Cost Claim. The PI-1570 reports the number of high school special education students served by a district in the previous year. The information generates high-cost special education categorical aid.

Audited Financial Statements. The district's full financial statements for the previous year (after review by an auditor).

Year 2:

PI-1504 Budget Report. The PI-1504 is a school district's full budget overview.

PI-1504-SE Special Education Budget Report. This report catalogs a district's spending on special education. The report generates special education aid to school districts.

January

Year 2:

PI-1563 Pupil Count Report for Second Friday of January. The PI-1563 informs DPI of the second Friday in January enrollment for the current school year, which is a key determinant of aid for the next school year.

May

Year 2:

PI-7206 SAGE Classroom Expansion Claim. The PI-7206 is filled out by and generates aid to districts seeking the SAGE Debt Service categorical aid.

Membership Audits. Annually 25% of school districts are chosen for an outside audit of their membership. The results of the outside membership audit are reported to DPI in May.

June

Year 2:

Foster Group Home Report. Districts list on this report the number of pupils living in foster homes who attended school for part of the year in the district but were not included in its membership number. The report generates part of the state tuition categorical aid payment.

Appendix III — Defining Key Terms

The following definitions of key terms seek to demystify the language of education finance in Wisconsin. Understanding these terms is crucial to making sense of the equalization aid concept and other key components of Wisconsin's K-12 finance system.

Average daily membership — “[T]he sum of all pupils enrolled in all schools of the school district for each day of the school term, divided by the number of days school is actually taught. If it contains a fraction, the quotient shall be expressed as the nearest whole number.” Average daily membership is simply the average number of full-time-equivalent (FTE) pupils in a school district in a school year. The average takes into account students who enter or leave a district throughout the year. *Statutory reference: 121.004(1)*.

Categorical aid — “State or federal aid which is intended to finance or reimburse some specific category of instructional or supporting program or to aid a particular target group of pupils. The district may use the aid only for the purpose for which it is paid.”¹¹⁴ Categorical aids are payments to school districts outside of the state funding formula. They fund specific programs. Examples include the SAGE small class size program, poverty aid, and the federal free/reduced private lunch aid. These aids do not figure into revenue limits and come primarily from the state general purpose fund. *Statutory reference: Chapter 121 - Subchapter II*.

Computer aid — “Computer aid is state funding provided to local units of government, including school districts, equal to the amount of property tax that would otherwise have been paid on exempt equipment.”¹¹⁵ Under the state statute, certain computer equipment is exempt from property taxes. School districts receive state aid, which counts toward revenue limits, equal to what would have been generated if such equipment were taxed. *Statutory reference: 70.11*.

Cooperative educational service agency (CESA) — “The cooperative educational service agencies are designed to serve educational needs in all areas of Wisconsin by serving as a link both between school districts and between school districts and the state. Cooperative educational service agencies may provide leadership, coordination and education services to school districts, University of Wisconsin System institutions and technical colleges. Cooperative educational service agencies may facilitate communication and cooperation among all public, private and tribal schools, and all public and private agencies and organizations that provide services to pupils.” CESAs are intermediaries between a group of school districts and the state. Wisconsin's 12 CESAs serve a variety of functions,

including putting on best practice training for school district officials. They are relevant to education finance because they receive a modest amount of state funding (\$25,000 annually), and run certain funded education programs such as schools for at-risk pupils. *Statutory reference: Chapter 116*.

Debt service — “Expenditures for the retirement of principal and payment of interest on debt.”¹¹⁶ Debt service is relevant for purposes of Wisconsin education finance because a school district's debt service costs are included as part of its shared costs. In other words, the annual cost of a school district's outstanding debt is funded through the state school aid formula. *Statutory reference: 121.07(6)*.

Enrollment count — “The number of pupils officially enrolled as eligible to attend class, whether such pupils are actually in attendance on that day or not, plus pupils enrolled in homebound instruction.”¹¹⁷ One of the misconceptions about Wisconsin enrollment counts is that students must be in attendance on a count day to generate revenue for the school district. In fact, enrollment counts actually consist of students enrolled in the district on that count date. As long as a student is enrolled in a school at least one day prior to the count and one day after the count, he or she is included in district enrollment figures. In addition, homebound students (such as those too ill for class, NOT private home-schooled pupils) are included in the count. *Statutory reference: 121.004(7)*.

Equalized valuation — “[T]he full value of the taxable property of the territory in the school district...” A district's equalized value is how much all of the taxable property in a community served by a school district is worth. In the Milwaukee Public Schools, a district that is coterminous with the City of Milwaukee, the equalized value is the worth of all the taxable property in the city. Nontaxable properties are not included in this calculation. The calculation itself is done by the Department of Revenue and sent to the state superintendent.¹¹⁸ *Statutory reference: 121.004(2)*.

Full-time equivalent (FTE) — “The result of a computation that divides the amount of time for a less than full-time activity by the amount of time normally required in a corresponding full-time activity.”¹¹⁹ FTE is simply a way to express enrollment in a school district that accounts for certain students, like kindergarteners, being less than full-time. For example, a 4-year-old kindergarten student is counted as .5 of a pupil because kindergarteners receive half the instruction time of first-graders. Hence, two 4-year-old kindergarten students would generate the same revenue as one first-grade student. *Statutory reference: 121.004(7)*.

General purpose revenue (GPR) — “This revenue source represents general revenues collected by the state and available for appropriation by the Legislature for any purpose.”¹²⁰ General purpose revenue consists of money collected by the state of Wisconsin from the personal and corporate income tax, the sales tax, gaming compacts, and various other sources. GPR can be used for any purpose as determined by the state Legislature. *Statutory reference: 121.01.*

General school aids — “State aid which is not limited to any specific program, purpose or target population but which may be used in financing the general educational program as seen fit by the recipient district.”¹²¹ General school aids are the sum of equalization aid, integration aid and special adjustment aid. General school aids are often referred to simply as school aids. Districts may spend general school aids as they see fit. *Statutory reference: 121.01.*

Guaranteed valuation — “The minimum tax base provided for support of a pupil’s education.”¹²² The concept of guaranteed valuation is the heart of Wisconsin’s equalization aid formula. Every Wisconsin pupil is guaranteed to have a minimum tax base supporting him or her (at different levels of spending). When school districts lack the state’s guaranteed tax base, the equalization aid formula uses state funds to mimic the existence of that tax base. (For more detailed information on guaranteed valuation, see the section called “In the weeds of the equalization aid formula,” page 8) *Statutory reference: 121.07(7).*

Home-based private instruction — “[A] program of educational instruction provided to a child by the child’s parent or guardian or by a person designated by the parent or guardian.” Home-based private instruction is simply home schooling. Home-schooled students are not public school pupils and are not funded by the state. *Statutory reference: 115.001(3g).*

Homebound student — “A student who is unable to attend classes, as attested to by a licensed medical professional, and for whom instruction is provided at home by a teacher whose program of instruction is under the direction and control of the district.”¹²³ Unlike home-schooled students, homebound pupils are counted and funded as district pupils. *Statutory reference: 118.15 (1)(d).*

Local education agency (LEA) — “[T]he school district that [a] child is attending.” The term LEA is relevant to education finance because under federal law, LEAs are responsible for identifying and making available the education of special needs services funded by federal money that flows to the LEA. In Wisconsin, both school districts and independent charter schools are LEAs. *Statutory reference: 115.77.*

Membership — “[T]he sum of pupils enrolled as reported [in the budget and membership report]¹²⁴ as appropriate, and the summer average daily membership equivalent.” Membership is the average FTE enrollment in a school district on the third Friday in September and second Friday in January (in all districts except Milwaukee), plus summer school FTE. In Milwaukee membership is the highest FTE enrollment count date of the third Friday in September, the second Friday in January, or the second Friday in May, plus summer school. For example, if a district had 1,000 students in its September enrollment count, 1,050 students in its February enrollment count, and 150 students in summer school, its membership would be $1,175 (1,000 + 1,050)/2 + 150$. *Statutory Reference: 121.004(5).*

Nonpublic or private school — “An institution is a private school if its educational program meets all of the following criteria:

(a) The primary purpose of the program is to provide private or religious-based education.

(b) The program is privately controlled.

(c) The program provides at least 875 hours of instruction each school year.

(d) The program provides a sequentially progressive curriculum of fundamental instruction in reading, language arts, mathematics, social studies, science and health. This subsection does not require the program to include in its curriculum any concept, topic or practice in conflict with the program’s religious doctrines or to exclude from its curriculum any concept, topic or practice consistent with the program’s religious doctrines.

(e) The program is not operated or instituted for the purpose of avoiding or circumventing the compulsory school attendance requirement under s. 118.15 (1) (a) and (am).

(f) The pupils in the institution’s educational program, in the ordinary course of events, return annually to the homes of their parents or guardians for not less than 2 months of summer vacation, or the institution is licensed as a child welfare agency under s. 48.60 (1).

(2) An institution may request the state superintendent to approve the institution’s educational program as a private school. The state superintendent shall base his or her approval solely on the criteria under sub. (1).” The statutory definition of private schools is relevant to the funding of Wisconsin’s private school choice programs because participating schools must meet the definition of private school in order to receive funding. *Statutory*

reference: 118.165.

Partial school revenues — “The sum of state school aids and property taxes levied for school districts.”¹²⁵ The phrase “partial school revenues” refers to revenues whose amount is determined through the state funding formula. It is the denominator used when determining how state-aided a school district is (state aid/partial school revenues = percent state-aided). *Statutory reference: 121.07.*

Primary costs — “That portion of the shared cost which is within the primary cost ceiling, and in which the state shares using the primary guaranteed valuation per member.”¹²⁶ Primary costs are the first \$1,000 in shared costs incurred by a school district. The distinction between costs (primary, secondary and tertiary) exists solely because the amount of guaranteed tax base behind each pupil differs at different cost levels. (For more detailed information, see the section called “In the weeds of the equalization aid formula,” page 8.) *Statutory reference: 121.07(6)(c).*

Program revenue — “This revenue source represents monies which are credited to a specific appropriation account to finance an agency or a particular program or activity within an individual agency. Generally, these are revenues collected for such things as user charges imposed as license or inspection fees, tuition, receipts from product sales, or for reimbursement for the costs of services provided by the collecting agency to another state agency, a nonstate organization or individuals.”¹²⁷ Program revenues are funds usually raised directly from users of a government program to fund a portion of that government program. An example is tuition paid to the University of Wisconsin System, or money used to enroll a student in a program in another school district such as for special education. *Statutory reference: 16.513(1).*

Property valuation — “The dollar value placed on land and buildings for purposes of administering property taxes.”¹²⁸ Property valuation is the taxable worth of property. The property valuation of property within the boundaries of a school district is a key determinant of equalization aid to the school district. *Statutory reference: 121.07(7).*

Revenue limit — The maximum amount of revenue (defined as “the sum of state aid and the property tax levy”) that a school district may raise in any given year without going to referendum. Revenue limits tell districts how much state aid and property tax they may receive, and in turn spend in any given year. In place since 1994, they are calculated based on enrollment, and on hard, uniform, allowable per-pupil dollar increases approved by the Legislature every two years. Revenue limits are arguably the most important factor for school districts to consider when budgeting, because they determine how much revenue (as defined above) a district will

have to spend, no matter the source. *Statutory references: 121.90(1m) and 121.91.*

Revenue limit exemptions and adjustments — A cost that a district is allowed to raise funds for via its property tax levy that does not count toward revenue limits. Occasionally the Legislature allows districts to raise funds for specific initiatives outside of revenue limits. For example, if certain conditions are met, districts may use tax funds to pay for energy efficiency or school safety projects. Also, districts with severely declining enrollment or other unique circumstances are able to make positive adjustments to their allowable revenue limit. Also, the community service levy, or Fund 80, does not count against revenue limits. *Statutory reference: 121.91(4).*

Revenue limit referendum — This is a school-district-wide vote to approve or deny a school board request to exceed the district’s revenue limit. Referendums may be pursued “for a recurring or nonrecurring purpose.” A revenue limit-referendum is simply a vote to raise taxes beyond state-imposed caps. Annually school boards are notified of their allowable tax levy. If they wish to exceed it, they can ask the voters for permission. *Statutory reference: 121.91(3)(a).*

School levy tax credit — “[A] below-the-line property tax relief program; that is, it is shown on the individual property tax bill as a reduction from the gross tax which would otherwise have been paid.”¹²⁹ The school levy tax credit is an appropriation sent directly to municipalities that reduces school district tax levies dollar-for-dollar. The levy is distributed by:

- 1) Making the statewide appropriation
- 2) Determining a municipality’s share of the statewide average education levy over the past three years
- 3) Giving each state municipality a portion of the statewide appropriation based on its share of the statewide levy

In other words, if a district receives \$1 million via the school levy tax credit, it must lower its education levy by \$1 million. A prominent criticism of the school levy tax credit is that it disproportionately benefits wealthy school districts.¹³⁰ *Statutory reference: 17.14.*

Secondary costs — “That portion of the shared cost which is above the primary cost ceiling, but not more than the secondary cost ceiling, and in which the state shares using the secondary guaranteed valuation per member.”¹³¹ Secondary costs are a district’s shared costs above \$1,000, and below an amount called the “secondary cost ceiling,” which is equal to 90% of the previous year’s statewide shared cost per member.¹³² In 2011, secondary

costs were shared costs above \$1,000 and equal to or less than \$9,298. *Statutory reference: 121.07(6)(dg)*.

Segregated revenue — “This revenue source represents monies which, by law, are credited to a specific fund other than the general fund. Revenues from the distinct (segregated) fund may be used only for the statutorily defined purposes of the fund.”¹³³ Segregated revenues, unlike general purpose revenues, are earmarked for a specific purpose. An example is the injured families and patient compensation fund, which must be used to compensate victims of medical malpractice. *Statutory reference: 16.513(1)*.

Shared costs — “The cost used as the basis for computing state general aid. This cost is funded by a combination of property taxes and state general aid. It is equivalent to the net cost of the general fund plus the net cost of the debt service fund.”¹³⁴ Shared costs are the school district costs that are eligible for either state or local funds through the state equalization aid formula, as well as debt service costs. In layman’s term, shared costs are merely the things that the state aid formula funds. The term “shared” is used because the funding determined by the state aid formula comes from a combination of state aid and local property taxes. *Statutory reference: 121.07(6)(a)*.

Special adjustment aid — “If a school district would receive less in state aid in the current school year... than an amount equal to 85% of the amount of state aid that it received in the previous school year... its state aid for the current school year shall be increased to an amount equal to 85% of the state aid received in the previous school year.” Special adjustment aid is used to protect school districts from sudden drops in general school aids. Every Wisconsin school district is guaranteed to receive at least 85% of the state aid it received in the previous year. If a district’s equalization aid and integration aid are less than 85% of general school aids in the previous year, special adjustment aid makes up the difference. These funds come from general aid revenue. *Statutory reference: 121.105(2)(am)1*.

Tertiary costs — The “portion of a school district’s shared cost which is greater than the secondary ceiling cost per member...” Tertiary costs are shared costs higher than the secondary costs ceiling; in 2011 all costs after \$9,298 were deemed tertiary costs. *Statutory reference: 121.07(6)(dr)*.

Three-year enrollment rolling average — This is the district enrollment average for the previous three years.¹³⁵ It is the enrollment number used to calculate a district’s revenue limit. The three-year enrollment rolling average exists to protect districts from dramatic year-to-year enrollment swings. In practice, this means when a student leaves a public school district, he or she continues to generate revenue for the district for two additional years.

Conversely, when a new student enters a school district, he or she does not generate full revenue for a district for two years. *Statutory reference: Chapter 121 — Subchapter VII*.

Endnotes

- ¹Wisconsin Constitution, Article X Section 3.
- ²Wisconsin Constitution, Article X Section 4.
- ³Russ Kava and Rick Olin, “Local Government Expenditure and Revenue Limits,” Madison, Wis., Wisconsin Legislative Fiscal Bureau, 2013.
- ⁴Wisconsin Information Network for Successful Schools, <http://winss.dpi.wi.gov/>, and author’s calculations.
- ⁵State Aid to School Districts, Wisconsin Legislative Fiscal Bureau, January 2011.
- ⁶Wisconsin Department of Public Instruction, Custom Referenda/Resolution Reports, http://www2.dpi.state.wi.us/sfsref/ref_Home.aspx.
- ⁷Craig Maher, Mark Skidmore and Bambi Statz, “State Policy Consequences for Wisconsin School Districts: Spending Disparities, Finance Formulas, and Revenue Restrictions,” *Marquette Law Review*, 2007.
- ⁸*Ibid.*
- ⁹Wisconsin state statutes, 2012, Section 121.01
- ¹⁰State Aid to School Districts, January 2011.
- ¹¹Maher, et. al.
- ¹²*Ibid.*
- ¹³State Aid to School Districts, January 2011.
- ¹⁴Wisconsin Supreme Court decision, *Buse v. Smith*, 1976.
- ¹⁵State Aid to School Districts, Wisconsin Legislative Fiscal Bureau, January 2011.
- ¹⁶Wisconsin DPI Glossary of Basic Facts
- ¹⁷Maher, et. al.
- ¹⁸State Aid to School Districts, January 2011.
- ¹⁹*Ibid.*
- ²⁰DPI, State Aid Payments to Public School Districts, 1995-’96 and 2011-’12.
- ²¹Wisconsin Department of Public Instruction.
- ²²State Aid to School Districts, Wisconsin Legislative Fiscal Bureau, January 2011.
- ²³DPI, Wisconsin School District Taxes and Levy Rates, <http://www.sfs.dpi.wi.gov/node/30379>.
- ²⁴DPI, FY 2011-’12 Equalized Levy Rates (Mill Rates), https://www2.dpi.state.wi.us/safr_ro/all_mill_rate.asp?year=2012
- ²⁵Bob Lang, 2011-’13 Budget Summary Information, Wisconsin Legislative Fiscal Bureau, July 5, 2011.
- ²⁶DPI October Aid Certification Report, 2010-’11, http://sfs.dpi.wi.gov/sfs_equalaid
- ²⁷Equalization Aid + Integration Aid + Special Adjustment Aid = General School Aid
- ²⁸Wisconsin Department of Public Instruction School Financial Services Team, School Finance Bulletin 474, June 4, 2012.
- ²⁹Wisconsin 2012, Act 32
- ³⁰Wisconsin Department of Public Instruction
- ³¹Wisconsin Department of Public Instruction, adjustments for inflation made using the U.S. Bureau of Labor Statistics Consumer Price Index — Midwest Urban
- ³²A small amount of categorical aid (\$1.5 million in 2010-’11) comes from program revenue, and some (\$39.6 million in library aid) comes from segregated revenue).
- ³³State Budget Process, January 2011.
- ³⁴*Ibid.*
- ³⁵General Fund Tax Collections, Wisconsin Legislative Fiscal Bureau, January 2011.
- ³⁶ESEA Title I LEA Allocations – FY2011, U.S. Department of Education, <http://www2.ed.gov/about/overview/budget/titlei/fy11/index.html>.
- ³⁷<http://www2.ed.gov/policy/gen/leg/recovery/spending/arra-program-summary2.pdf>
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