THE WISCONSIN
TAXPAYER

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After the Storm: School Funding in 2012

What Happened to Revenues, Costs, Staff?

The 2009-11 and 2011-13 state budgets had profound impacts on school districts and their finances. Aid cuts and tightened revenue limits in both state budgets squeezed school budgets. Law changes enacted in 2011 helped schools reduce benefit costs. Staff layoffs and retirements combined with the effects of the law changes helped districts reduce benefit costs $366.3 million in 2012, covering about 81% of the dollars lost due to revenue limit cuts. Reduced retirement costs generated the largest savings, accounting for about two of every three dollars in benefit cost reductions.

If a single word were to sum up the past 18 months in Wisconsin K-12 education, the word would be "tools." In early 2011, the governor and legislative allies used the word in referring to controversial school-finance trade-offs they sought.

To close a multibillion-dollar deficit, the state's 2011-13 budget reduced school aid by 8% and cut state limits on school revenues by 5.5%. To compensate, the governor sought what he viewed as greater budget and management flexibilities for districts. These so-called tools, made law in Act 10, addressed employee retirement contributions, health benefits, and collective bargaining.

Since enactment, two major questions have remained: Did the tools generate sufficient savings to compensate for cuts in school revenue limits? And, more broadly, given that the last two deficit-plagued state budgets (2009-11 and 2011-13) cut school aids and tightened revenue limits, did the cost relief offered relieve four years of state fiscal retrenchment? These questions were difficult, if not impossible, to answer until recently.

The first step in answering these questions is to understand school-finance history during the decades leading up to recent state deficits, including the impact of declining school enrollments and the related effects of state revenue limits.

With that historical context, it is possible to review actions taken in the 2009-11 and 2011-13 budgets, particularly as they relate to state aid, revenue limits, school staffing, and employee compensation. Only then can one assess whether a balance between the oft-mentioned tools and cuts in revenue limits and state aid was achieved.

CONTEXT: 1985-2008

During the late 1980s and early 1990s, school property taxes rose rapidly—over 8% per year from 1985 through 1993—due largely to rising compensation costs. As taxpayer anxiety mounted, state lawmakers responded with a major overhaul of school finance enacted in the 1993-95 and 1995-97 state budgets.

Also in this issue:

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The 1993-95 budget imposed on schools revenue limits that capped growth in the amounts districts could collect from a combination of local property taxes and state general aid. The 1995-97 budget increased state school aids and related credits by about $1 billion to make good on a pledge that state government provide "two-thirds" of school revenues. In other words, for every school property tax dollar, the state would provide an average of two dollars in school aid.

The result was a new approach to Wisconsin school funding, where state government assumed the lead role and local districts became more dependent on the state and its fiscal health.

Over the ensuing 11 years, the state made modest changes to revenue limits and state aids. However, two changes in the 2003-05 budget hinted at things to come. Recurring state budget problems led the governor and lawmakers to eliminate the statutory commitment to providing two-thirds of school revenues. They also slowed state aid growth to less than 2% after increasing it between 3% and 6% during each of the preceding five years.

State fiscal problems combined with a deep recession in 2009 led the governor and legislature to tighten revenue limits and reduce school aids in the 2009-11 state budget. The aid cuts were minimized by a temporary infusion of federal stimulus money.

With no federal stimulus dollars available for 2011-13 and state budget problems continuing, state leaders reduced spending on most programs. As mentioned, school aids and district revenue limits were cut.

THE BIG QUESTION

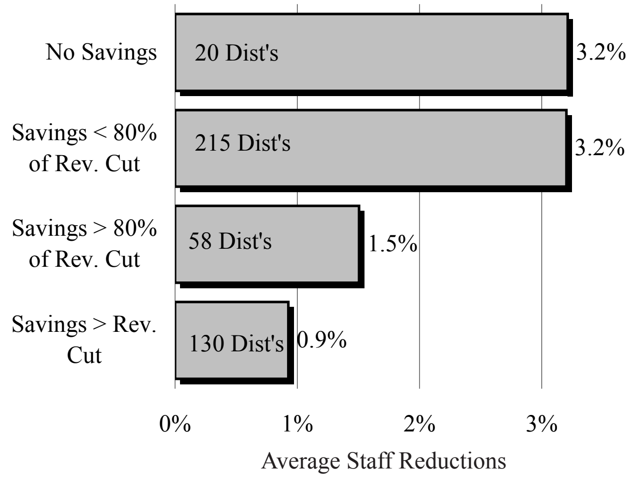
The unpredictable nature of school funding over prior decades came to a head in 2011-12. What happened then, and did the "tools" provided in Act 10 offset school revenue losses?

The revenue-limit cuts meant districts collected $451.2 million fewer dollars in 2012 than in 2011 (for details, see page 3). Total benefit costs were $366.3 million lower in 2012 than in 2011 (page 4). In other words, savings generated from benefit savings covered about four in every five (81%) dollars school districts lost due to the state reductions in their available revenues.

This percentage overstates the impact of the law changes regarding benefits. First, not all districts took full advantage of the benefit changes allowed by law, either by choice or because they were locked into contracts—indeed, 2012 benefit costs rose in 20 districts. Second, some of the benefit savings were produced by a 2.3% reduction in staff (see page 6) and retirements that brought in younger employees.

By one estimate, staff reductions were responsible for about $79.2 million (22%) of all benefit savings.

Figure 1:
More Benefit Savings Yields Fewer Staff Cuts
% Chg. in Staff by Benefit Savings Relative to Rev. Reduction



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If true, benefit savings from the law changes totaled $287.1 million, or about 64% of the $451.2 million revenue reductions.

Yet analysis by district shows those that were able to take most advantage of the “tools” generally had fewer staff cuts. A total of 130 districts generated more benefit savings than they lost in revenue. In Twin Lakes, for example, revenues were down $18,344 but benefit costs were reduced $270,481. Among these 130 districts, staff reductions averaged 0.9% (bottom bar in Figure 1, page 2). These cuts were significantly less than both the 2012 state average (2.3%) and the statewide decline during the prior two years (1.3% and 1.5%, respectively).

Another 58 districts generated benefit savings that covered more than 80% of the revenues they lost. On average, these districts reduced staff by 1.5% in 2012. The 215 districts with smaller savings—less than 80% of their revenue loss—had average staff reductions of 3.2%. The 20 districts whose benefit costs actually rose also cut staff by an average of 3.2%.

The short answer to the “big” question—did the tools adequately protect school districts from lost revenues—is yes and no. Many districts that were able to significantly reduce benefit costs had limited staff changes. In others, where contracts were in place or employees were already paying 10% or more of health insurance premiums, savings did not offset revenue losses and staff cuts were larger.

The following sections provide more detail on revenue limits, benefit costs, and staffing to understand the consequences more fully. Each section provides historical context before separately detailing the impacts of the 2009-11 and 2011-13 state budgets.

Figure 2:
Revenue Cap Growth Slowing, Falling
% Change in Statewide Revenue Limits, 1995-2012

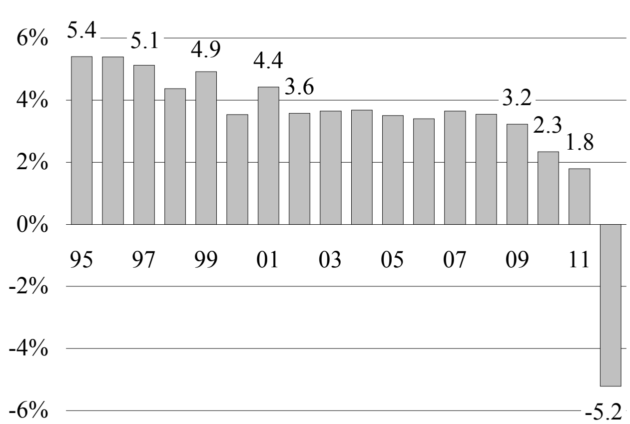
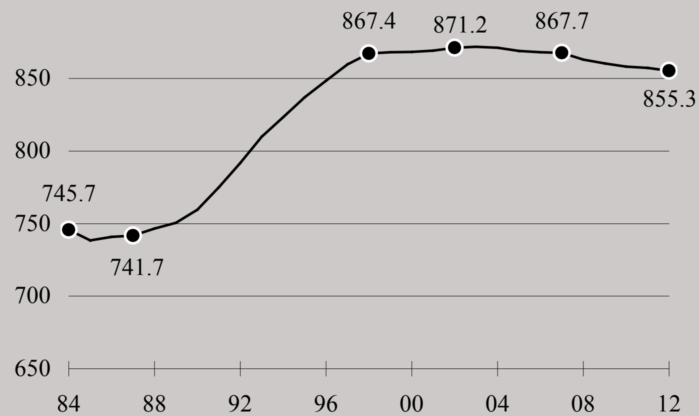


Figure 3:
Statewide Enrollment Down 1.9% Since 2003
Full-Time Equivalent Students, in Thousands, 1984-2012



ENROLLMENT MATTERS

A critically important but often overlooked development cannot be ignored when discussing Wisconsin school finance—long-term decline in student numbers. Enrollment affects both revenue limits and staffing. A district’s revenue limit is calculated on a per student basis, so more students means more revenue, while fewer students can mean less.

As Figure 3 shows, from 1989 through 1998, statewide enrollments rose an average of 1.6% per year. They leveled off in the late 1990s and have declined nearly 2% since 2003.

Over the past five years, declining enrollment has been a pervasive problem in Wisconsin. During 2007-12, about 250 districts (59% of the total) faced a drop in student numbers each year. In about 104, or 25% of all districts, enrollment fell for at least three consecutive years.

REVENUE LIMITS

State aid is usually the focus of those critical of Wisconsin school finance. That concern is somewhat misplaced as, at least in the short term, state-imposed revenue limits have greater impact.

Background

The sum of general state aid and local property taxes (the school revenues that are limited) on average account for about three-quarters of a district’s revenues. By restricting the amount districts can collect from the sum of these two sources, the state limits school spending growth.

Revenue limits have not always been problematic. From 1995 through 1999—when enrollments were growing—statewide revenue limits increased an average of 5% per year (see Figure 2), enough to cover inflation and growth. However, as student counts slowed their growth and then declined over the 10 years that followed, revenue-limit growth slowed to an average of 3.6% per year.

These statewide trends reflect the experience of many districts during these years. Where district enrollments rose, revenue growth covered most cost increases. However, even without recent state law changes, declining-enrollment districts faced slow-growing, or even declining revenues.

Phase 1: 2009-11 State Budget

The 2009-11 state budget made major changes affecting schools. For the first time, it:

- reduced state school aid, particularly equalization aid; and
- reduced the allowable increase in per student revenue limits.

General (equalization) aid was cut 2.9% in 2010 and remained unchanged from that lower level in 2011. Reduced state aid does not necessarily affect a school district's bottom line because, under revenue-limit law, districts can replace "lost" aid with additional property taxes. However, to limit property tax increases that otherwise would have resulted from aid cuts, lawmakers reduced the allowable increase in revenue limits from $275 to $200 per student. This meant that rather than rising 3.1%, 2010 revenue limits statewide rose only 2.3%. In 2011, they increased 1.8% (see Figure 2).

Statewide averages often mask changes occurring at the district level. In 2009, 253 districts had revenue limits increase 2.5% or more. That number dropped to 174 in 2010 and 143 in 2011.

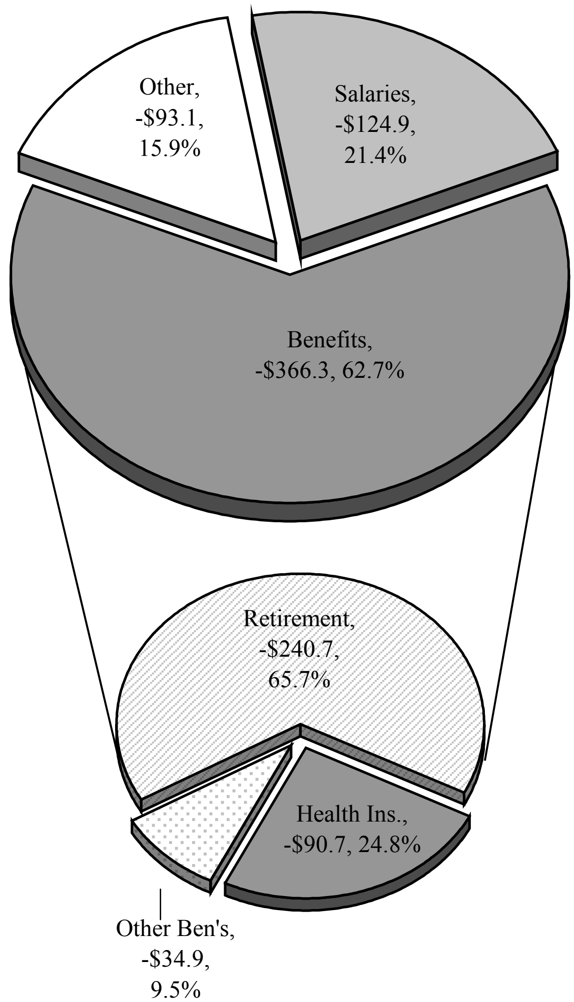
Phase 2: 2011-13 State Budget

Heading into the 2011-13 biennium, state budget problems continued. But this time, federal stimulus dollars were not available. To balance the budget, lawmakers cut most state programs in 2012, including state school aids (about 8%). And, to limit property tax increases resulting from less aid, they reduced per student revenue limits 5.5% (about $550 for the average district).

Statewide, total limited revenues dropped 5.2%. The decline was less than the 5.5% per student cut enacted because some districts passed referenda to exceed the caps while others carried over money from 2011. The reduction returned statewide revenues ($8.31 billion) to just below 2009 levels.

By District. Changes were not uniform across districts. Fifteen districts had total revenue limits rise due to varied reasons. In South Shore, Highland, Nicolet, and Ellsworth, revenues rose more than 3% due to successful referenda. In Hudson and Cadott, they climbed 2.9% due to unspent revenues from 2011. Geneva J4's limit rose more than 2% due largely to an 8% jump in student counts.

Figure 4:
District Savings Mostly from Benefit Costs
2012 Cost Savings by Category, Total = $584.2 Million



These districts were the exception: About 96% of districts faced lower revenue limits. More than half (248 of 424) of districts experienced drops between 5% and 10%, while declines were larger in another 17. In Rubicon J6, Monroe, Spooner, Rio Community, and Rosendale-Brandon, expiring referenda resulted in unusually large reductions. In others, declining enrollment was a factor.

BENEFIT COSTS

Rising benefit costs, primarily for health insurance, are a challenge for both public- and private-sector employers. Over the past 20 years, health insurance premiums increased an average of 7% per year. With K-12 revenues growing much slower due to state-imposed limits and a school compensation law

(QEO, see below) that limited benefit changes, rising health costs were a particular burden for schools.

Background

The 1993 qualified economic offer (QEO) law, enacted to help districts manage compensation costs under revenue limits, allowed districts to impose a 3.8% increase in total compensation (salary plus benefits) if a contract agreement was not reached. However, the QEO had unintended consequences, especially for benefits.

If a district imposed the QEO, it could not change benefits. Thus, in many districts, benefit costs claimed an increasing share of total expenditures. By 2009, they averaged 26.0% of school district spending.

Phase 1: 2009-11 State Budget

The 2009-11 state budget repealed the QEO law. Some school finance experts thought repeal would boost compensation costs, both salaries and benefits. However, a deep recession at the time affected bargaining; contract negotiations were affected by both the law change and economic conditions.

During 2010 and 2011, benefit costs rose 4.3% and 5.0%, respectively. These increases were similar to prior years and pushed benefits to 27.1% of spending in 2011.

Phase 2: 2011-13 State Budget

To help school officials manage revenue limit reductions, lawmakers made several changes to state law, including:

- eliminating benefits from collective bargaining; and
- requiring local (and state) government employees to pay the employee share of state retirement contributions previously covered by the public employer.

State law provides for both employee and employer contributions to the state retirement plan. Over the years, nearly all local public-sector unions had negotiated for the employer (in this case the school district) to pay the employee share. The new law eliminating the "employer-pay" option lowered benefit costs for school districts, but it raised them for employees.

Eliminating benefits from collective bargaining allowed districts without a contract in place to change insurance providers, increase employee benefit contributions (copays, deductibles, etc.), and make other insurance changes without union approval. It also permitted districts to make other changes (e.g., work hours and prep time) that could generate savings.

Reduced Spending. Due mostly to revenue limit cuts, statewide school spending was budgeted to fall \$584.2 million (5.4%) from \$10.9 billion in 2011 to \$10.3 billion in 2012. Of that, \$366.3 million (63%) was from lower benefit costs (see Figure 4, page 4). Another 21% was from reduced wage costs from a combination of layoffs and retirements, as opposed to pay cuts. The final 16% was from lower spending in other areas.

Retirement cost savings accounted for about two-thirds of the \$366.3 million in benefit reductions.

Due primarily to state law changes, spending on benefits fell 12.7% from \$2.9 billion in 2011 to \$2.5 billion in 2012. Employee benefits include retirement contributions, insurance (mostly health), social security, and Medicare. At 27.1% of spending in 2011, benefit expenses dropped to 24.8% in 2012.

Retirement Costs. Of the benefit savings, nearly two-thirds (\$240.7 million of \$366.3 million total) came from reduced retirement costs since districts no longer had to pay the employee retirement contribution (they continue to pay the employer contribution).

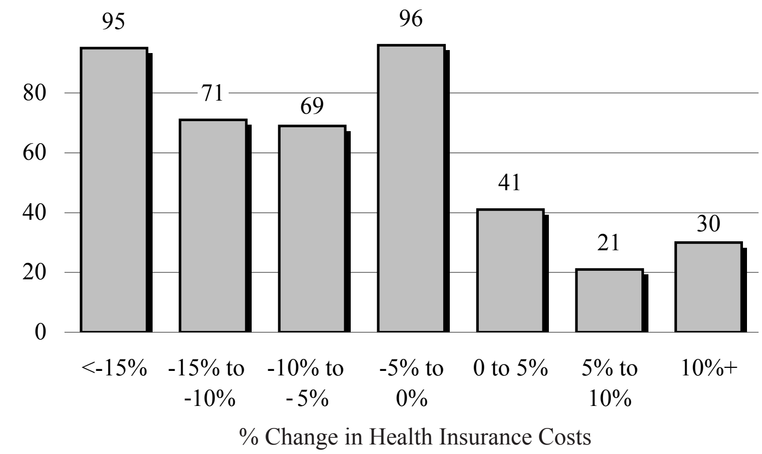
Statewide, this expenditure declined 78% from \$310.5 million in 2011 to \$69.8 million in 2012. The cost was not completely eliminated because some union contracts had not expired or were extended prior to enactment. In 2012, only 90 districts budgeted nothing for the employee retirement contribution.

A total of 170 districts reduced retirement spending by at least 90%. By contrast, nine budgeted increases: Columbus, Cudahy, Jefferson, Lake Geneva J1, Marion, Shullsburg, Solon Springs, Southwestern, and Yorkville J2. These districts likely had all or nearly all employees covered under existing contracts. Seven districts cut the expenditure less than 10%: Abbotsford, Erin, Fox Point J2, Frederic, Lake Geneva-Genoa City, Mercer, and Milwaukee.

Health Insurance. Reduced health insurance costs accounted for only a quarter of benefit savings and less than 16% of total spending reductions. The drop in these costs was due to many factors, including:

- higher deductibles;
- increased employee premium sharing; and
- lower premiums obtained by bidding out health insurance, which in some cases meant changing insurance providers.

Figure 5:
Health Insurance Savings Vary
Number of Districts by % Reduction in Health Insurance Costs, 2012



New state law requires state government employees to pay at least 12% of health insurance premiums. While the law eliminates insurance benefits from collective bargaining, it does not require local government employees to pay a particular percentage of the premium. That is up to the employer.

Comprehensive information detailing the extent to which districts raised deductibles is not available. However, an annual survey by the Wisconsin Association of School Boards sheds light on how premiums were lowered and employee premium sharing was changed.

Among 128 districts responding to both the 2011 and 2012 surveys:

- 79 (62%) had lower monthly premiums in 2012 compared to 2011;
- 100 (78%) increased the share of the premium paid by employees, with 43 increasing it at least 10 percentage points for single coverage. The median (half of districts lower, half higher) district raised employee's share of premium from 2% for single coverage and 5% for family coverage in 2011 to 12% for both single and family in 2012; and
- 109 (85%) used a combination of lower or slow-growing premiums and increased employee premium sharing to reduce premium cost to the district.

Budget figures from all districts show health insurance costs statewide fell $90.7 million (5.9%) from $1.53 billion in 2011 to $1.44 billion in 2012. But not all districts reduced health insurance expenditures. As Figure 5 shows, in 92 districts, health insurance costs rose in 2012; in 30, they were up more than 10%.

This can be due to several factors. Again, districts with a contract in place could make fewer benefit changes than those without a contract. Also, some districts "self-fund" their insurance (i.e., the employer takes on the risk of health claims rather than paying an insurance company to do so). Generally, self-funding can generate savings, but it also can put districts at risk if an unusually large number of claims or several large claims are filed.

Such districts were the exception, though, as most (331, or 78%) had lower health insurance costs in 2012 than in 2011. In 96, health costs fell marginally (5% or less), while in another 69 they dropped less than 10%. In 95 districts, health costs fell more than 15%, with costs dropping 30% or more in nine.

STAFFING

School district staffing depends mostly on enrollment and revenue. When districts gain or lose students, staff levels adjust to meet the changing needs. However, if staffing increases, revenues or cost savings elsewhere must be sufficient to cover the increased expense.

Background

From 2004 through 2009, statewide staffing declined slightly as enrollment fell. In 2004, school districts employed about 105,000 full-time equivalent (FTE) employees. After falling below 103,000 in 2008, staffing rebounded to near 2004 levels in 2009. Teacher numbers fell from 62,640 FTEs in 2004 to 61,901 in 2008, then rose to near 2004 levels in 2009 (see Figure 6, page 7). At about 14, the student-teacher ratio was little changed during these years (see Figure 7, page 7).

Phase 1: 2009-11 State Budget

As Figure 6 shows, teacher counts resumed their decline in 2010 and 2011. Two factors were significant. First, statewide enrollment continued to fall, dropping 0.3% in 2010 and another 0.1% in 2011. In many districts, declining enrollment led to staff reductions.

Second, available district revenues were squeezed. As mentioned, growth in revenue limits was 2.3% in 2010 and 1.8% in 2011. With staff compensation, energy, and other costs rising faster, districts reduced staff numbers.

In 2010, total school staff fell 1.3%, or nearly 1,400 FTEs. The drop was larger (1.5%, 1,519) in 2011. Decline in teacher numbers was similar, falling 1.3% in both years. Statewide, the number of teachers declined more than 800 in both 2010 and 2011, and student-teacher ratios climbed from 13.8 in 2009 to 14.1 in 2011 (Figure 7).

An increasing number of districts cut staff during these two years. In 2009, 202 reduced overall staff and 197 cut teachers. Those numbers rose to 251 and 245, respectively, in 2010 and to 264 and 259 in 2011.

Phase 2: 2011-13 State Budget

In 2012, enrollments continued to decline, but districts also faced reduced revenues. While most were able to lessen the effect of those cuts by reducing benefit costs, most still had to reduce staff.

Statewide, districts cut staff 2.3% (2,312) and teachers 2.4% (1,446). The number of districts cutting teachers rose from 259 in 2011 to 311. The number with any staff cuts climbed from 264 to 315. In 2012, the statewide student-teacher ratio was 14.4.

LOOKING AHEAD

Wisconsin school districts faced significant fiscal challenges in 2012. For many, they were a continuation of challenges faced in prior years as enrollments declined and state-imposed revenue caps tightened. For most, 2013 brings little relief, and more tough decisions will be needed.

This year, districts are allowed a small increase in their revenue limit ($50 per student, or about 0.5% for an average district). Districts that take full advantage of the revenue limit can get an additional $50 per student, which results in an overall revenue increase of about 1%.

Figure 7:
Student-Teacher Ratios Rising
Statewide Average, 2004-12

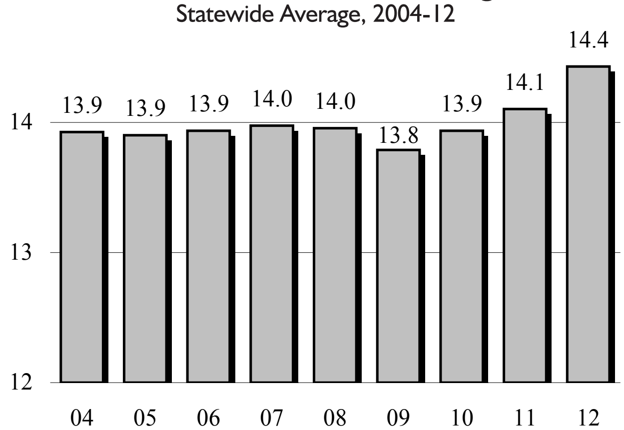
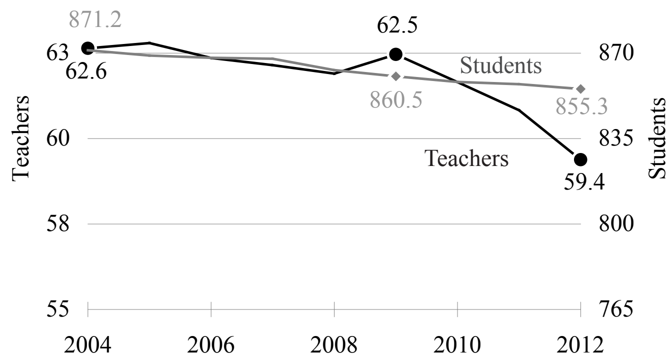


Figure 6:
Numbers of Teachers, Students Fall
FTE Teachers and Students, in Thousands, 2004-12



With many costs rising more than that (e.g., technology, heat, and transportation), districts will have to find additional benefit savings or face more staff layoffs. Most of the savings from not paying the employee share of retirement costs have been achieved. Some of those savings will be partially offset by higher 2013 contribution rates for the employer's share (from 5.9% of salary to 6.65%) that were deemed necessary by state officials who manage the retirement fund. Districts will likely have to seek additional health insurance savings to balance their budgets.

However, a recent court decision suspended parts of Act 10. The decision makes it unclear whether districts will be able to generate additional benefit savings in 2013.

With districts putting the final touches on their 2013 budgets and a new state budget season approaching, several questions arise:

- Will the 2013-15 state budget provide more long-term predictability for schools than did previous budgets?
- With a rapidly growing Medicaid program likely to absorb a significant share of new state revenues, will lawmakers be able to increase aid to schools or will they have to reduce them as they have in the last two budgets?
- Will property tax relief yet again be a priority? If so, then lawmakers will likely allow only small revenue cap increases and school districts will once again have to make do with revenues that do not keep pace with inflation. □

DATA SOURCES:
Wisconsin Department of Public Instruction; WISTAX calculations.

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WISTAX NOTES

■ **No "Taxes" Book This Year.** Due to increasing use of electronic tax preparation software and availability of online information, our annual ***Taxes*** publication will no longer be published. Understanding that many purchasers used the book to stay current with tax law changes, we hope to include a summary of law changes in the December issue of ***The Wisconsin Taxpayer.***

■ **New School Grades Out.** New school report cards based on 2011-12 data have been released by the Wisconsin Department of Instruction (DPI).

Among the 1,124 elementary schools graded, 958 (85.2%) met, exceeded, or significantly exceeded expectations. Of the 958 schools, 470 exceeded or significantly exceeded expectations.

Among 349 middle schools or junior high schools, 315 (90.3%) met, exceeded, or significantly exceeded expectations, while 86 fell in the last two categories. Finally, among 404 high schools graded, 338 (83.7%) met, exceeded, or significantly exceeded expectations, with 149 performing at one of the two highest levels.

Schools are graded in four areas:

- reading and math scores;
- student growth in reading and math;
- narrowing gaps in test scores among various groups (low-income, disabled, minority, etc.); and
- whether students are "on-track" to be ready for college or careers.

Each school's final numerical grade determines whether it does not meet expectations, meets few expectations, meets expectations, exceeds expectations, or significantly exceeds expectations.

■ **Advanced Placement Success.** Among Wisconsin's 2011 public high school graduates, 19.4% scored a passing grade on at least one advanced placement (AP) test during high school. The state ranked 14th nationally and was higher than all surrounding states. In Maryland, New York, Virginia, Massachusetts, and Connecticut, more than one-in-four graduates passed an AP test. By passing the test, student can often gain college credit in a particular course. ☐

In FOCUS . . . recently in our biweekly newsletter

- New fed finance figures I and II (#18-12, #19-12)
- College and career readiness need work (#17-12)
- Canary in the school mineshaft (#16-12)

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	4. Other classes mailed through the USPS	219	248
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	1. Mailed outside-county	15	12
	2. Mailed in-county	17	22
	3. Mailed through other classes	106	68
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Todd A. Berry, President and Managing Editor