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How Have Schools Fared? Wisconsin vs. U.S.

K-12 Education in the Recession and After

When tax revenues dropped during the 2007-09 recession, Wisconsin school funding suffered; revenues were tightened, spending was cut, staff and compensation were reduced. However, new Census Bureau figures suggest that Wisconsin's retrenchment was not unique. While many states made cuts during the entire 2008-12 period, Wisconsin's revenue and spending reductions were concentrated in 2012.

Funding K-12 schools consumes a significant share of most state budgets. Prior to the 2007-09 recession, school aids in Wisconsin claimed about 40% of general purpose spending.

As a result, when tax revenues dropped during the economic downturn, school funding was adversely affected in many states. The magnitude, timing, and response to the decline varied among states. It is only now, with new U.S. Census Bureau figures, that an in-depth examination of public school finances during and after the recession has become possible.

Questions abound: Did schools fare better or worse in Wisconsin than elsewhere? Compared to other states, did this state confront its problems early or late in the recession? Was any particular element of school funding, e.g., state aid or employee compensation, more affected than others?

THE WISCONSIN STORY

As it turns out, Wisconsin dealt with the recession somewhat differently than other states. Part of the explanation may rest in the timing of the downturn and Wisconsin's budget cycle. While national employment did not start falling until February 2008, it began to drop as early as June 2007 in Wisconsin.

Yet, because the state budgets for two years at a time, its school aid amounts for 2007-08 (2008) and 2009 were set before the recession hit.

The downturn's first major impact on state finances occurred during the 2009 fiscal year. In January 2009, as state officials were preparing the 2009-11 state budget, the Legislative Fiscal Bureau (LFB) cautioned state leaders that tax revenues for fiscal 2009 and for the 2009-11 biennium would be less than previously anticipated.

State lawmakers filled the shortfalls with a combination of tax increases, spending cuts, and temporary federal stimulus money. Specifically, they:

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- Used $552 million of stimulus money to fund 2009 school aids;
- Reduced school aids by $200 million in 2010 and left them unchanged at that lower amount in 2011; and
- Lowered the allowable revenue limit increase from $275 per student in 2009 to $200 per student in both 2010 and 2011.

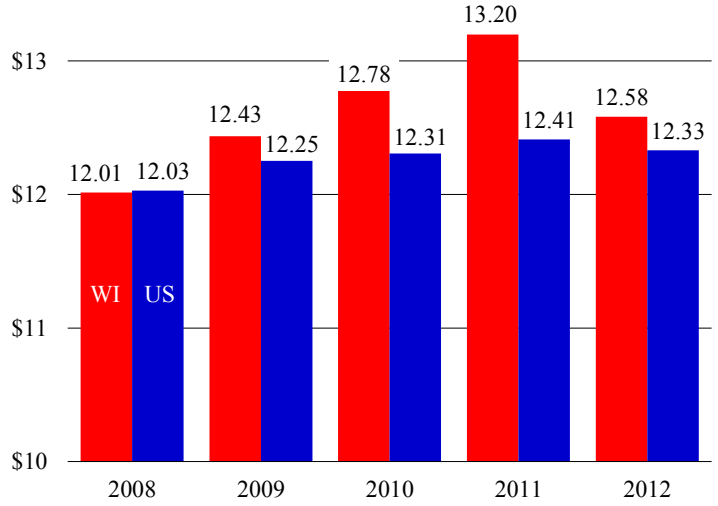
State-imposed revenue limits restrict the amount of money school districts can collect from a combination of local property taxes and state general aid. Taken together, these actions allowed school spending to continue to rise, but at a slower rate (see page 3 for more information on revenue limits).

Wisconsin faced another state budget deficit heading into the 2011-13 biennium. The new governor and legislature were averse to tax increases, so the budget gap was closed mostly through spending reductions.

School aids were cut about $400 million in 2012 and remained nearly unchanged at that lower level in 2013. School revenue limits were reduced 5.5% in 2012 and left at that level in 2013.

To help schools manage the reductions, 2011 Act 10 required most state and local government workers (including school employees) to pay half of their retirement contributions. Prior to Act 10, school districts generally paid the entire amount. Act 10 also removed benefits as a subject of collective bargaining, allowing districts to increase health insurance cost-sharing with employees (e.g., through higher deductibles) and to switch to lower-cost providers without union approval, further reducing their benefit costs.

Figure 1: Wisconsin School District Revenues Above Average
Revenue Per Student, $ Thousands, Wis. (Red) and U.S. (Blue)



The revenue limit cut reduced school spending in 2012, with the impact on staffing tempered by benefit cost reductions.

WHAT HAPPENED ELSEWHERE?

Whether Wisconsin's approach to school funding during and after the recession resembled that of other states can be determined, at least in part, by using Census information on public school districts across the country. The one drawback to these data is timing; compiling the vast amounts of information takes time, so 2012 figures were just recently released.

Revenues

The financial figure that matters most for school districts is total available resources. School revenues are typically derived from three sources: local revenues (mostly property taxes), state aids, and federal support. Districts also collect a relatively small amount of money from various school fees and charges.

Focusing on total revenues is important because when one revenue source rises, another might fall.

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Send address changes to *The Wisconsin Taxpayer,*
401 North Lawn Avenue, Madison, Wisconsin 53704-5033
Phone: 608.241.9789 Fax: 608.241.5807
Email: wistax@wistax.org Website: www.wistax.org

For example, under Wisconsin's revenue limit law, a reduction in state aid is often replaced with higher property taxes. Focusing on an aid cut masks changes in total revenues.

Total Revenues. While year-to-year changes were varied and volatile, above average increases followed by an above average decline left Wisconsin's revenue position vis-a-vis the nation little changed during 2008-12.

In 2008, Wisconsin's total revenue per public school student was about the same as the U.S. average ($12,014 vs. $12,028; see Figure 1 on page 2). Over the next three years, per student revenues here climbed 9.9% to $13,197. Nationally, they rose just 3.2% to $12,411. During these years, per student revenues rose faster in Wisconsin than in all but nine other states.

As mentioned, Wisconsin used temporary federal dollars designed to stimulate the economy to help fund schools in 2009. And, although state aid in Wisconsin was reduced in 2010, the state revenue limit law allowed school districts to increase property taxes to more than make up for lost aid (see gray box).

While per student revenues rose at an above-average rate here, they declined in 15 states over the 2008-11 period. By year, revenues fell in 10 states in 2009, 14 in 2010, and 23 in 2011. Over the three years, per student revenues declined the most in Florida (-11.5%), Arizona (-5.4%), and California (-5.2%); meanwhile, they increased 9.9% in Wisconsin.

In 2012, trends shifted with per student revenues falling both here and nationally. However, Wisconsin's decline (4.7%) was larger than the nation's (0.3%) and those of all but four states (Arizona, Florida, Idaho, and North Carolina). A total of 27 states saw per student revenues fall that year. In short, while many states trimmed school revenues during the entire 2008-12 period, Wisconsin's revenue reductions were concentrated in 2012.

When 2012 figures are combined with those for 2008-11, Wisconsin's total revenue change places it in the middle of the states. Its 4.7% increase during 2008-12 ranked 27th nationally but was above the U.S. average (2.5%). Per student revenues in all neighboring states grew more than in Wisconsin. In 14 states, revenues in 2012 were less than in 2008, with the largest reduction in Florida (-19.9%).

What these data suggest is that, taken over the entire five-year period, Wisconsin's position relative to other states changed little. In 2008, Wisconsin ranked 18th nationally in total revenues per student; in 2012, it ranked 21st.

State Aids. As the recession reduced tax revenues, many states cut school aids to balance budgets. In Wisconsin, school aids were reduced in 2010 and again in 2012. In the latter year, Wisconsin experienced the largest cut (8.3%) in the nation.

During 2008-12, per student school revenues in Wisconsin rose 4.7%. The increase was 27th highest among the states and above the U.S. average (2.5%).

The Badger State was not alone, however. In each year during 2009-12, at least 11 states reduced state assistance to schools, with the number peaking in 2010 at 40. By 2012, Wisconsin's per student state aids were 7.8% below 2008 levels. Nine states had larger cuts during these years, including six with double-digit declines: Arizona (-33.2%), Florida (-26.8%), California (-15.9%), Alabama (-15.3%), Georgia (-12.8%), and Idaho (-12.6%).

Local Revenues. In addition to state and federal aid, schools are funded by various local sources, mostly property taxes. Unlike state aids, local revenues in Wisconsin never declined over the 2008-12 period. Annual growth in local revenue here slowed from 7.0% in 2008 to between 3.6% and 5.4% during the next three years. Growth ceased in 2012. Over the

Understanding Revenue Limits

Since 1994, Wisconsin school districts have been subject to state revenue limits. Revenues subject to the limits are state general aids and local property taxes. Each year, the limits are adjusted by a per student amount which typically reflects inflation.

The limits tie changes in school property taxes to aid changes. For example, if revenue limits are allowed to rise $275 per student (as they were in 2009) and aids rise $100 per student, local property taxes can increase $175 per student to fill the gap.

In 2010, lawmakers cut state aid and reduced the allowable increase from $275 to $200 per student. Despite the aid cut, revenues still rose because districts were able to replace lost aids with property taxes. School levies rose 6.0% that year. Total revenues limited by the state (aids plus property taxes) climbed 2.3%.

In 2012, revenue limits were reduced 5.5% per student and state general school aids were cut 8.3%. Because aids were cut significantly more than revenue limits, school property taxes also fell. Total limited revenues declined 5.1% that year.

entire five-year time period, however, local revenues increased 13.5%.

That local revenue increase (13.5%) was significantly more than the national average (4.5%). In 2007, local revenues per student averaged $5,071 nationally, compared to $4,926 in Wisconsin. By 2012, however, they averaged $5,488 nationally and $5,987 here. In other words, while Wisconsin trailed the nation by 2.9% in 2007, its per student local revenues exceeded the U.S. by 9.1% in 2012.

Additionally, our 13.5% increase during 2008-12 was seventh highest of the 50 states; 14 states cut local dollars over the period. As a result, Wisconsin's 50-state rank for local per student revenues rose from 19th in 2007 to 15th in 2012. Hawaii (-29.3%) had the largest cuts over the time period, followed by North Carolina (-26.0%) and Indiana (-24.8%).

Spending

For teachers and parents, perhaps more important than revenue patterns are spending trends.

Current Spending. The best measure of overall school district spending is current spending, which includes all categories except large capital expenditures (e.g., buildings) and debt service. Current spending per student in Wisconsin fell in 2012, dropping 6.2% from $11,774 to $11,042 (see Figure 2). Though 20 states cut spending that year, Wisconsin's reduction was the largest. Nationally, school spending increased 0.5%.

While one-year changes can be interesting, it is important to consider a broader, multi-year picture. School spending in Wisconsin was reduced considerably in 2012, but spending changes during 2008-12 were nothing unusual.

Figure 2: Wisconsin Per Student Spending Falls in 2012
Annual % Chg. (2008-12), Total % Chg. (2008-12, Dashed Column)

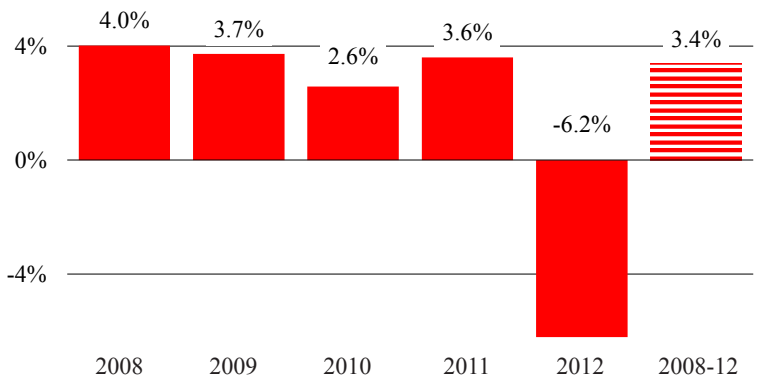
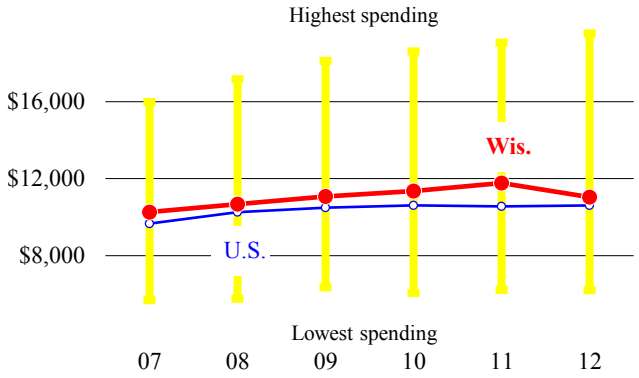


Figure 3: Per Student Spending Comparisons
Wisconsin (Red), U.S. (Blue), Highest and Lowest Spending States, 2007-12



In 2008, Wisconsin schools spent $10,680 per student, 15th highest among the 50 states and above the national average ($10,259). When the downturn began in 2008, schools across the nation began to cut expenditures. While no states cut them between 2007 and 2008, six made cuts the following year. The pattern continued, with 15 making cuts in 2010 and another 21 in 2011.

The average annual change in spending across the U.S. shifted from a 6.1% increase in 2008 to 0.5% cut in 2011. However, in Wisconsin, spending growth remained steady. In 2008, Wisconsin's 4.0% increase was less than in 38 states. In 2011, spending here grew only 3.6%, but that was 9th highest in the nation. As a result, during these years the gap between Wisconsin's advantage over the nation in per student spending actually widened (see Figure 3).

Despite Wisconsin's large cut in 2012, school spending here rose 3.4% during 2008-12, a rate that matched the national average but placed Wisconsin 30th among the states. Although school spending in Wisconsin dropped noticeably in 2012, the state's relative spending per student only fell from 15th highest in 2008 to 21st highest in 2012.

Benefits. The part of school budgets most affected by Act 10 changes was, by far, fringe benefits. By requiring most government workers to pay half of their total retirement contribution, and by removing benefits as a subject of collective bargaining, Act 10 allowed school districts to reduce benefit costs significantly, if they chose.

Benefit expenditures per student fell 17.3% from $2,294 in 2011 to $1,898 in 2012 (see Figure 4 on page 5). Only West Virginia (-18.4%) and Florida (-19.5%) had larger drops.

In broader context, though, Wisconsin's benefit changes were not as unusual as might appear. The main difference was one of timing. As was the case with expenditures, Wisconsin simply waited longer than the rest of the country to retrench. Benefit costs dropped in a number of states in years prior to 2012: 11 cut them in 2009, 13 in 2010, and 18 in 2011. Benefit expenditures nationwide fell 0.6% in 2011, while they climbed 6.2% in Wisconsin, the 12th largest increase among the 50 states.

It is important to note that benefit costs can fall for two reasons. First, a direct reduction can occur due to plan changes or increased cost sharing, the types of reductions Act 10 permitted. Second, benefit costs can fall due to staff reductions. Data limitations do not allow the two causes to be fully distinguished.

That said, there is little question that benefit reductions here were significant. In all, costs fell 4.0% over the four-year, 2008-12 period. Ten other states also cut benefits during this time, but only seven reduced them more than Wisconsin.

However, Wisconsin's benefit costs per student remain relatively high. Wisconsin ranked 10th among the states in 2008 and 16th in 2012. Benefit expenditures here still exceeded the national average ($1,898 per student vs. $1,573) by more than 20%.

STAFFING AND COMPENSATION

So far,this discussion has focused on dollars and cents, revenue and expenditures, rather than on people or staffing. However, K-12 education is labor intensive, and the human dimension deserves attention.

Staffing

When revenues grow little and spending tightens, employment is affected. Many observers expected

Figure 4:
Benefit Spending Rises Steadily, Then Drops
% Chg. Per Student, Wis. (Red) vs. U.S. (Blue), 2008-12

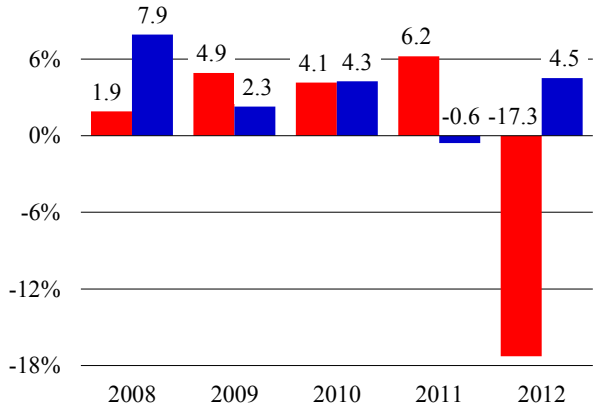
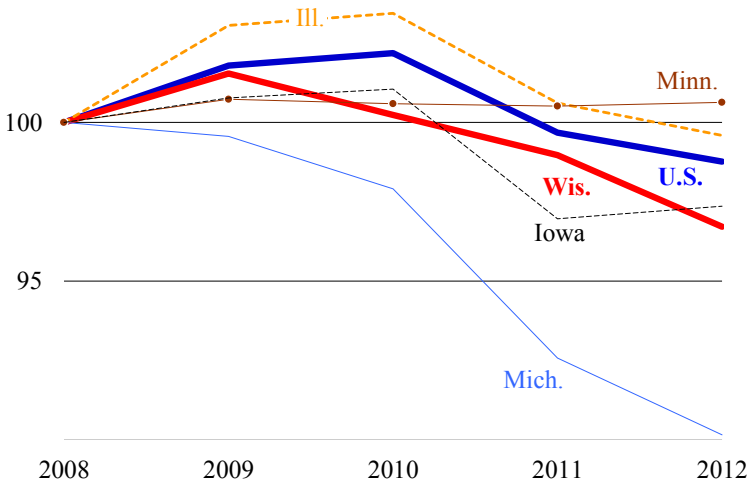


Figure 5: Staffing Levels Decline Here, Elsewhere
Index of School Staffing, 2008-12



unprecedented job losses in schools after Act 10. Although the timing of staff changes was slightly different in Wisconsin, their magnitude was similar to national changes.

After increasing 1.5% in 2009, K-12 staff levels in Wisconsin fell for three consecutive years: 1.3% in both 2010 and 2011, and 2.3% in 2012. All told, Wisconsin schools employed 104,981 individuals in 2008 but 3.3% fewer (101,533) in 2012. Wisconsin's personnel reductions began with the 2010 cut in revenue limits (from $275 per student to $200) and continued through 2012.

This pattern of decline was not unusual. Over the same period, 26 states trimmed staff, with 13 states making larger cuts than Wisconsin. During 2008-12, school employment fell 1.2% nationwide.

Wisconsin began reducing staff ahead of most states (see Figure 5). In 2010, the Badger State was one of 22 states with reductions; only 12 states had bigger cuts. Nationally, the cuts were largest in 2011 (-2.5%) when 33 states reduced staff. Wisconsin's reductions were more modest that year due in part to earlier cuts. In 2012, however, staffing dropped 2.3% here, compared to only 0.9% nationally. Although 30 states reduced staff that year, Wisconsin's reduction was 14th largest.

Some states made even larger cuts during the 2008-12 period. Alabama cut staff the most (-17.3%). Cuts in Virginia (-11.9%), Michigan (-9.8%), Nevada (-8.5%), and Kentucky (-8.0%) all topped 8.0%.

At the same time, schools in a number of other states significantly increased staff levels; in Kansas,

they rose 30.2%. Increases were also notable in South Dakota (12.0%) and Wyoming (10.8%).

Compensation

Benefit changes resulting from Act 10 reduced total compensation for school staff. However, Wisconsin was not the only state in which school compensation fell.

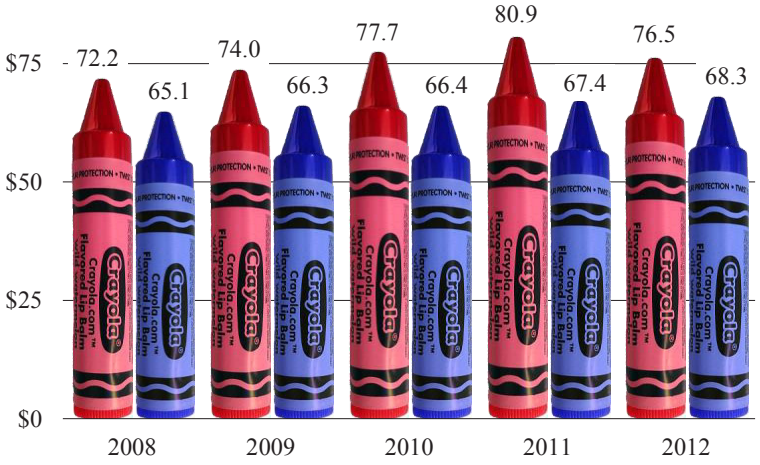
In Wisconsin, average school compensation (salary plus benefits) fell 5.4% from $80,853 in 2011 to $76,520 in 2012 (Figure 6). Of the 20 states that cut compensation that year, Wisconsin's reduction was fifth largest. Average compensation increased 1.4% nationally in 2012.

A longer time period tells a somewhat different story. Although the 2012 compensation cut was large here relative to elsewhere, over the five years ending in 2012, compensation in Wisconsin increased more than elsewhere. Average compensation increased 6.0% in Wisconsin vs. 4.9% nationally, a change that was 25th highest among the states.

During these years, compensation cuts were relatively common: In both 2010 and 2011, 16 states cut compensation; another 20 followed suit in 2012. All told, 11 states reported net declines during 2008-12, with the largest occurring in Kansas (-18.8%), followed by Florida (-9.2%).

The simultaneous rise in staffing and decline in average compensation in Kansas suggest the need for caution when interpreting these data. Staffing levels there rose 30.2% during this time. It is possible that the influx of young employees largely caused the reduction in compensation.

Figure 6: Average Compensation Rises, Falls
Avg. Staff Comp., $ Thousands, Wis. (Red) vs. U.S. (Blue), 2008-12



After about five years (2008-12) of recessionary turbulence and retrenchment in school finance, how employee compensation in Wisconsin compares with other states may not be clear. Despite recent cuts, average compensation for Wisconsin school employees in 2012 remained above the U.S. norm ($76,520 vs. $68,331). What's more, while Wisconsin ranked 15th in K-12 compensation in 2008, it ranked 10th in 2011, and 12th in 2012.

Salaries. The largest part of compensation is usually salaries. In Wisconsin, school salaries in 2012 averaged $51,785 (15th highest) vs. $49,771 for the nation. Even in 2012, when average compensation dropped 5.4%, Wisconsin salaries declined only 0.9%. Because they increased more than 2% in each of the three years prior, they still grew 4.3% over the entire 2008-12 period.

Nationally, salaries were unchanged during 2011-12, but increased just 2.6% over the five-year period. Thus, though down from their 2011 peak at 14th among the states, average salaries here ranked higher in 2012 (15th) than in 2008 (18th).

Benefits. As for the other major element of compensation, benefits were more volatile. Benefit costs in Wisconsin averaged $24,735 in 2012, or 13.5% less than in 2011 ($28,586). Average benefits nationally rose 5.3% that year. Wisconsin's drop came after three consecutive years of increase: 3.1% in 2009, 5.6% in 2010, and 6.0% in 2011. From 2008 through 2012, average benefits were essentially unchanged in the Badger State (-0.1%), while climbing 11.8% nationwide.

Despite recent benefit reductions, average school benefits here continue to compare favorably. In 2008, they ranked 6th; in 2012, 10th. And Wisconsin's average ($24,735) continued to exceed the nation's ($18,560).

FINAL THOUGHTS

There is little doubt that Wisconsin schools endured financial stress during the recession. Revenues were tightened, spending was cut, staff was reduced, and compensation suffered—particularly in 2012. However, in a broader national context, while Wisconsin acted later than most states, its retrenchment was not unique. ☐

DATA SOURCES:

U.S. Census Bureau; Wisconsin Department of Administration; Wisconsin Department of Public Instruction.

November Vote: Constitutional Amendment

In addition to electing a new legislature and governor, Wisconsinites will vote on a constitutional amendment in this November's election.

TRANSFERS TO END?

State law considers gas taxes and various driver and vehicle registration fees as user charges to be held in a segregated transportation fund. If passed, the amendment would require that these revenues remain in the transportation fund and be used solely for transportation purposes. The amendment aims to prevent the transfer of transportation monies to other funds, as the state did for much of the prior decade to avoid general fund deficits.

Background

The state constitution forbids the legislature from borrowing to close deficits in the state's general fund, where most major state taxes, e.g. income and sales, are placed. Borrowing for capital projects like roads and bridges is permitted.

During 2003-11, the governor and lawmakers approached each new biennia facing the likelihood that expenditures would exceed revenues, and a deficit, illegal in Wisconsin, would result. State officials turned to the transportation fund to erase anticipated budget shortfalls, shifting revenues from gas taxes, driver licensing fees, and vehicle registration fees to the general fund. In order to replace the displaced funds, they authorized borrowing for transportation needs.

All told, during 2003 through 2011, the state shifted $1.4 billion from the transportation fund to the general fund. Simultaneously, the legislature authorized nearly $1.2 billion of general obligation debt for transportation purposes.

Increased use of revenue bonding exacerbated the problem. Revenue bonding increased 26.1% from $136.1 million in 2003 to $171.7 in 2011. Due to the rise in borrowing, burdensome debt service payments resulted. While these payments claimed about 7% of transportation fund revenue during 1998-2002, they represented 16% in 2013.

The Amendment

The proposed amendment, which aims to halt this practice, reads:

> All funds collected by the state from any taxes or fees levied or imposed for the licensing of motor vehicle operators, for the titling, licensing, or registration of motor vehicles, for motor vehicle fuel, or for the use of roadways, highways, or bridges, and from taxes and fees levied or imposed for aircraft, airline property, or aviation fuel or for railroads or railroad property shall be deposited only into the transportation fund or with a trustee for the benefit of the department of transportation or the holders of transportation-related revenue bonds.

The Debate

Pros. Fundamentally, amendment proponents see it as a guarantee to transportation users that the earmarked taxes and fees they pay are used as promised. They argue that the amendment is needed to prevent further interfund transfers that have helped leave the transportation fund with heavy debt. And, they point out that a majority of states, including most of Wisconsin's neighbors, constitutionally restrict the use of transportation user fees.

Cons. Opponents of the amendment question the wisdom of denying the legislature needed budget flexibility during times of fiscal crisis that transfers from the transportation fund allow. They wonder whether it is fair to give transportation programs a "free pass" during recessions, while other programs must be cut or taxes increased.

Additionally, some question whether a permanent constitutional remedy to an occasional practice is "overkill." Transportation transfers could be prevented by statutory restrictions instead of by constitutional amendment.

What's Next?

The amendment has already passed both the assembly and senate in two consecutive legislative sessions. Come November, voters will make the final decision. If more than 50% approve, Wisconsin's constitution will be amended, making it unconstitutional to spend gas taxes and vehicle registration fees on anything other than the maintenance and upkeep of Wisconsin's transportation system. ☐

DATA SOURCES:

Wisconsin Department of Justice; Wisconsin Legislative Fiscal Bureau; Wisconsin Department of Revenue; 2013 Assembly Joint Resolution 2.

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608.241.9789 • www.wistax.org

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WISTAX NOTES

■ **Legislative Study Committees.** During the summer and fall interim of each even-numbered year, the Legislative Council selects subjects for study from suggestions submitted by members of the legislature. Study committees are then charged with studying the issues and recommending solutions to be considered during the next legislative session. Ten legislative study committees have been named for 2014. This year's topics include: personal property tax, criminal penalties, tax-incremental financing, technical college funding and governance, state tribal relations, problem-solving courts, early brain development, student achievement guarantee in education (SAGE) programs, adoption disruption and dissolution, and transfer of structured settlement payments.

■ **Legislative Tenure and Turnover.** Tenure of Wisconsin legislators, as measured by the average number of legislative sessions served, has risen significantly over the past 70 years, according to a report from the Legislative Reference Bureau. In 1941, state senators and representatives both served an average of 1.1 legislative sessions. By 1965, the senate average exceeded four legislative sessions, while the assembly average was nearly two. The senate-assembly gap closed during the 1970s and 1980s but has widened since. In 2011, tenure averaged 3.01 sessions in the assembly and just below five sessions in the senate.

As length of service increased, turnover dropped. The average number of new members sworn in at the beginning of each legislative session has declined in both houses. During the 1940s, an average 9.2 new senators and 36.4 new representatives took office each session. By the 2000s, the figures declined to 4.0 and 15.0, respectively.

■ **Declining Local Control?** The state legislature has passed 64 measures imposing unfunded mandates on or restricting the authority of local governments in the past four years, according to the Legislative Fiscal Bureau. Of those, 30 were enacted during the 2011-12 legislative session, 34 in the 2013-14 session.

The majority of these restrictions were enacted in the 2011 and 2013 state budgets. Lawmakers have restricted local governments' abilities to set property tax levels, regulate landlords, and impose residency requirements on employees.

■ **State Inheritance and Estate Taxes.** In addition to the federal estate tax (a 40% tax imposed on the transfer of a deceased person's estate in excess of $5.34 million), some states levy estate and inheritance taxes. Estate taxes are charged against an estate, regardless of who inherits the assets, while inheritance taxes are borne by the individual receiving part of an estate, such as a son or daughter.

Wisconsin is one of 29 states with neither tax. Currently, fifteen states and the District of Columbia have an estate tax, and six states have an inheritance tax. Only two states, Maryland and New Jersey, levy both.

In the five-state region, both Illinois and Minnesota have estate taxes, while Iowa has an inheritance tax. The state with the highest estate tax rate is Washington (20%). Eleven states, including Illinois and Minnesota, have a maximum rate of 16%. Hawaii and Delaware have the highest exemption threshold at $5,340,000. Minnesota exempts up to $4 million; Illinois up to $1 million. Of the six states with inheritance taxes, Nebraska has the highest inheritance tax rate (18% for transfers to non-relatives); Iowa's maximum rate is 15%. □