

**The Wisconsin School Finance Issue in Retrospect:
State Aid, Cost Controls and Property Tax Relief**

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The property tax is Wisconsin's biggest, toughest, and oldest fiscal dragon. The state has been trying to slay or wound this monster at least since 1911. That's when Wisconsin enacted the first state income tax and shared it with local governments, hoping it would reduce their reliance on the property tax. Eighty years later the dragon keeps growing, despite shared revenue, state aid, property tax exemptions, lottery proceeds, state and county sales tax receipts, a variety of tax credits, and other arrows shot from the state's tax relief arsenal.

Over half of all property tax dollars are levied and spent each year by K-12 school boards. Recommendations made by the property tax relief (Barry) commission several years ago, as well as current proposals to resolve the school finance/tax relief issue, include measures to control school district costs. Other proposals would amend the uniformity clause of the Wisconsin constitution so that property tax relief checks could be sent directly to households, graduated by income. These income-based credits to households also imply some sort of control. Without controls, credits would need to grow as fast as the unchecked growth in the tax on households, or relief would shrink. Income credits would increase the ability of some households to pay their property tax bills, while cost controls would reduce the tax bill itself. All of these proposals would change the way state funds currently are spent for property tax relief.

Property tax relief is linked to school cost controls through state aid. Presumably, more state aid for schools, whose cost increases were limited by state controls, would curtail the school boards' need to raise their own revenue. This would reduce their reliance on property tax revenue and assure that state aid increases would translate into property tax relief, rather than into higher levels of spending.

Cost control proposals have set off a vigorous debate over what impact they might have on school property taxes next year, and beyond. One way to look at this issue is to focus on the primary goal -- lower property taxes (or at least lower than they would have been without controls) -- rather than concentrate on the means --

cost controls -- of achieving the goal. In addition, one useful way to evaluate the potential impact of controls on school district finance is to do it in retrospect. Therefore, two perspectives are offered here which aren't prominent in the current debate over school district taxing and spending: 1) tax limits, rather than cost limits, and; 2) impact analysis using historical data, rather than forecasts.

First, if property tax relief is the ultimate goal, a limit on property tax levies would have the same effect as cost controls. Other things being equal (that is, no additional revenue) lower tax levies would indirectly reduce spending because -- as school boards know -- a dollar less in total revenue forces a dollar cut in total spending. If a dollar of state aid were added, however, costs would remain the same but the property tax burden would be reduced. If school boards levied more property taxes than they needed to cover the maximum cost allowed, they simply would end the year with surplus funds. The interaction of these variables can be read right-to-left or left-to-right, and can be seen as:

$$\text{tax levy} + \text{state aid \& other revenue} = \text{school costs.}$$

Second, rather than ask only what the impact of limitations might be at some time in the future (where one set of guesses is compared to another set of guesses), we can ask what the results would have been if the limits had been imposed during some period in the past (for which some actual data are available). For budgetary and political purposes forecasts eventually will have to be made; meanwhile, this "retrospective" approach might be a useful context in which to consider the policy issues raised by the tax relief/cost control proposals.

The table below, therefore, is a look backward at the latest five years for which there are actual, rather than estimated, data. During that period state funding of K-12 costs increased by \$592.9 million, according to the Legislative Fiscal Bureau, while the costs themselves increased by \$1,221.5 million. Most of the difference was made up by increasing the property tax levy. Figures in the table try to answer the question: "what would have happened if tax levies had been limited?" The table is based on the assumption that, beginning with the 1985 property tax levy year, limits were imposed on the annual percentage increase in the school boards' gross property tax levies; in each case, the percentage increase in the levies was equal to the percentage increase in a different measure of spending "need" or taxing "capacity." Column 1 shows the actual school district levy. The other columns indicate what the levy would have been if it had increased annually by a percentage equal to the percentage increase in the following measures: 1) the consumer price index; 2) state personal income per capita; 3) full value per pupil or; 4) full value itself.

Numbers in the table's bottom rows are the result of subtracting the 1989 "what if" levies in each column from the actual 1989 levy. These amounts, therefore, represent the hypothetical differences between actual school district spending in the 1989-90 school year and the maximum spending that would have been possible within the limits, but with no additional state aid. They also represent, therefore, the amounts by which state aid would have had to be increased to hold the school districts "harmless" against spending cuts; to guarantee that a tax levy decrease would equal a state aid increase.

Property Tax Levy Limit Scenarios for School Districts
 School District Property Tax Levies, 1984-1989:
 (In Millions \$)

Levy Year	Actual Levies	If Annual Percentage Increase in Levy is Equal to Annual Percentage Increase in:			
		Consumer Price Index	Personal Income Per Resident	Full Value Per Pupil	Full Value
1984	1,566.0	1,566.0	1,566.0	1,566.0	1,566.0 (Actual Levy)
1985	1,583.3	1,622.4	1,639.6	1,576.9	1,578.3 (Limits Begin)
1986	1,709.5	1,653.2	1,729.8	1,576.9	1,578.3
1987	1,840.4	1,714.4	1,828.4	1,584.6	1,595.4
1988	1,989.9	1,784.7	1,934.4	1,640.4	1,657.0
1989	2,158.5	1,870.3	2,074.9	1,708.5	1,743.6
Actual vs. Limited 1989 Levy		-\$ 288.2 (13.3%)	-\$ 83.6 (3.9%)	-\$ 450.0 (20.8%)	-\$ 414.9 (19.2%)

Source: Actual levies, enrollments, and consumer price index are from Informational Paper #16, Table 1, Legislative Fiscal Bureau, 1991; Full value (which decreased between 1985 & 1986) is from Town, Village, and City Taxes-1989, Table VI, Department of Revenue, 1990; Wisconsin personal income per capita from M-169-II, Table 12, Advisory Commission on Intergovernmental Relations, 1990.

The use of historical data shows us that the growth measure selected would have made a significant difference in levies, costs, or state aid. At one extreme, the income measure would have allowed school districts to raise more property tax revenue than they actually did raise in 1985, and again in 1986, because personal income per capita grew at a faster rate than tax levies did during those periods. At the opposite extreme, school district property tax levies would have been "frozen" between 1985 and 1986, when the full value of taxable property in Wisconsin actually declined. By the 1989-90 school year these tax, cost, or aid tradeoffs ranged anywhere from \$83.6 million (if personal income per capita had been used), to \$450.0 million (if levies were limited by full value per pupil changes). Similarly, the consumer price index would have brought annual levies (and costs) down (or state aid up) by \$288.2 million. Finally, limiting the percentage levy increase to the percentage full value increase would have reduced property tax revenue and increased state aid (or reduced costs) by \$414.9 million in 1989-90. The 1989 property tax cut would have ranged from less than four percent (with per capita income) to more than twenty percent (with per pupil value).

Per pupil value may be used to illustrate the impact in more detail. This growth rate limit may not be "better" than others, but the use of per pupil value is, at least, more consistent with the current aid system than are other limitations. The major state aid distribution formula is guided by the "equalization" principle, which states that each school district should have the same revenue raising capacity per pupil, regardless of its actual per pupil value. "Perfect" tax base equalization would mean districts which spent the same number of dollars per pupil would have the same property tax effort, because state aid would compensate for inter-district differences in per pupil value.

Statewide, per pupil value (that is, the "property taxing capacity" of school districts) grew by only seven percent between 1984 and 1989, while per pupil costs grew by 39 percent. As the table indicates, if the annual percentage increase in per pupil value had been used to limit levies between 1984 and 1989, and districts would have levied the maximum allowed, then a net adjustment of approximately \$450 million would have been required by the 1989-90 school year. This "adjustment" could have been made in a variety of ways, including: 1) for maximum property tax relief, \$450 million more in state aid, or; 2) with no additional aid, spending cuts of \$450 million, or; 3) no property tax relief, if school district voters overrode the levy limit, or; 4) some combination of additional aid, and/or spending (cost) reductions, and/or less property tax relief. To balance their annual budgets within the per pupil value levy limit, state and local policy makers would have had to decide between state aid increases and/or school cost decreases of the following amounts (in millions): 1985 -- \$6.4; 1986 -- \$132.6; 1987 -- \$255.8; 1988 -- \$349.5; 1989 -- \$450. Over the five year period the difference between actual levies and limited levies would have been more than a billion dollars -- \$1,194.3 million.

Fiscal hindsight can produce conclusions which are just as speculative and "unreal" as fiscal forecasting. For example, the choice of a different historical period would have produced different quantitative results. Technical problems also abound. For example, the rate used would need to be lagged for one year because there is no way of knowing the changes in the consumer price index, personal income, population, enrollments, or property values before they happen. Furthermore, three of the toughest questions remain unanswered here, namely: 1) where would the state have "found" the additional property tax relief (aid) that would have been needed to maintain the same level of spending? 2) was this the "best" level of spending? 3) how would per pupil spending and taxing disparities among school districts be adjusted?

The retrospective scenarios (aid/levy tradeoffs) presented here would have been good fiscal policy only if each school district would have been spending at a "perfect" level -- neither too much nor too little -- and if state aid would have been used to "perfectly" equalize tax base differences among districts. Then, annual state aid increases and reallocations would have been targeted to districts where the full value per pupil declined over the year, relative to other districts.

Tax base differences are not perfectly equalized in Wisconsin, and per pupil spending and taxing disparities also are still with us. Few arguments are made for absolute uniformity. Some children will cost more to educate than others, regardless of where they attend school. Likewise, some school districts will have to pay more than other districts for the same level of facilities, goods, and services, regardless of the competence of their teachers, administrators, or school board members. These real cost differences will have to be identified and accommodated either by weighting enrollments, classifying districts, or by the use of categorical aid. This complicates the transition from one school finance system to another. Crafting a new system which includes controls on costs (or levies, or mill rates), requires political ingenuity, intergovernmental trust and coordination, and statewide consensus on what level of spending should be both adequate and guaranteed by the state. Spending or taxing above that level presumably would need direct voter approval, and would not be supported by state aid. With no state/local consensus on how much revenue (or spending) is enough for each district, the property tax dragon will be hard to kill.