

### **Senate Task Force Takes Long View of School Finance**

As summer brings to the Capitol politically charged budget revisions, election campaigning and the possibility of legislator indictments, some comfort may be derived from the familiar presence of school finance reform on the back legislative burner. Think tanks and policymakers have been quietly pursuing long-range (by political standards) plans to change the Wisconsin system for funding K-12 education.

The Democratic leadership in the state Senate created the Senate Education Finance Task Force in early 2002, to consider various proposals to reform the way Wisconsin pays for its public schools. All sides of the school finance debate agree that there are fundamental problems with the Wisconsin school finance system. The principle concern is that the system developed over a period of years and a series of political compromises that have left school districts in a kind of fiscal straitjacket.

The legislature succeeded in meeting demands for more stable funding and property tax relief, but in doing so froze into place a K-12 cost structure that now drives school funding, and, some advocates contend, educational policy in Wisconsin. The increasing emphasis on measuring student and school performance through testing has only raised the stakes of the debate. Many observers contend that imposing testing requirements without reforming the finance system to account for resource inequities will effectively doom older, poorer districts to a vicious cycle of low performance and underfunding.

Two-thirds state funding of K-12 revenues became law in 1993, but that promise was not fulfilled until 1996-97 when state funding jumped one-third to just over \$4 billion annually. By 2001-2002, the state's commitment had risen another 25% to just over \$5 billion or roughly 40% of total general fund (GPR) spending. As part of the 1993 legislative bargain, two additional policies were implemented: a cap on revenue growth (and thus spending), and the Qualified Economic Offer (QEO) that effectively limited district's annual wage/benefit increases to 3.8 percent.

The 1993 "deal" on two-thirds funding was passed without a single public hearing, and was made possible by a temporary surplus in state revenues. It responded to the legislature's perception of a near public revolt over double-digit property tax increases and large inequities between districts. Property tax increases did indeed slow, but the inequities between districts were not substantially improved. Property taxes still provide 35-40 percent of all district revenues.

The result was a very complex three-tier financing system that creates a string of unintended but unavoidable consequences from every attempt to address funding issues. For example, if the legislature attempted to increase special education aid, the revenue limits would automatically decrease equalization aids. Changing that fund would require a complicated recalculation of the equalization fund thresholds, which in turn would require adjustments in property tax levies in every Wisconsin school district. The net effect would

be that any additional amounts districts received for special education would depend more on their property wealth and per-student spending than their special education costs.

### *A System in Slow Meltdown*

The upshot of this system, built on political and fiscal expediency, is a financial system that is increasingly difficult for local school boards to manage, and virtually impossible for the state legislature to reform in piecemeal fashion.

For districts, spending increases under the revenue limits can not keep up with costs for staff salaries and benefits, teaching materials, technology, and building maintenance. Revenue limits and state aid are based heavily on enrollment, which is declining in more than half the state's districts. However, the declines are distributed across grades and schools in a district, preventing savings: if a classroom of 30 students loses even 20% of its students, nearly all the costs to educate the remaining 24 students remain unchanged.

For legislators, the complex system of revenue limits, categorical aids and multi-tiered distribution formulas are an insurmountable fiscal and political barrier to reform. The difficulty of voters and taxpayers to understand the system, much less to monitor it, make achieving political dialogue and consensus nearly impossible. The revenue limits are based on the previous year's expenses, with the 1993 budgets as baselines, rather than any deliberate calculation of educational needs. There is also no incentive structure for improvement, since funding bears no relation to student performance.

State and federal reimbursements for special education (education for children with disabilities) fall far short of their statutory commitment. The state pays only 32 percent of the total cost--the gap between spending and state aid grew from \$325 million in the 1993-'94 school year to \$575 million in 2000-'01. State and federal law require an "appropriate education" for all students with disabilities, and many districts must cut regular education programming to meet those costs.

The QEO law was designed to keep teacher-wage growth, the largest single cost to districts, under strict control, and it has succeeded. However, the cost of benefits has risen much faster than the annual four percent allowable increases due to the sharp growth in health insurance premiums, leaving little or nothing for salary increases. From 1990 to 2000, the average starting wage for Wisconsin public school teachers actually declined 3.8 percent in real terms. Meanwhile, average starting teacher salaries in the Great Lakes region rose 1.1 percent, while the national average climbed 3.7 percent. By 2000, average starting salaries for Wisconsin teachers trailed their regional and national cohorts by 5.1 percent and 10.4 percent.

Wisconsin is among the higher spenders among states on public education, and for that investment can claim high overall performance by its students on national standardized tests. However, less than one-third of Wisconsin students score "proficient" or above on National Assessment of Education Progress tests. Low-income students and students of color account for a significant portion of the under-performing group.

## ***The Beginnings of Reform***

There are signs of an emerging response to this slow chokehold on legislative flexibility and school district autonomy. Several proposals in various stages of development have been put forward, and the Senate Education Finance Task Force will be sorting through them in anticipation of possible action in the new legislative session next January. The Task Force has held several meetings, most recently on June 3, when three reform plans were presented by the Institute for Wisconsin's Future ("IWF", a Milwaukee policy nonprofit); state Representatives Michael Lehman (R-Hartford) and Wayne Wood (D-Janesville); and Jeff Spence, president of the Milwaukee Public Schools Board of Directors.

The next committee meeting is scheduled for July 22 at 9:30 a.m. in the Capitol. It is expected that additional plans may be considered at that time, if their sponsors can meet the committee requirement that the plans be in writing so that the Legislative Fiscal Bureau can analyze them. One likely entry will be Senator Michael Ellis's (R-Neenah) published plan. In addition, plans may be forthcoming from Governor McCallum, whose task force, headed by former Wisconsin Education Association Council (WEAC) executive Morris Andrews, raised controversy last fall over its non-public meetings; and perhaps from WEAC itself, which has also voiced support for elements of the IWF plan.

An analysis of the four published plans reveals strong attempts to address specific flaws in the current system. Yet each proposal raises additional questions, which are likely to raise political hackles and perhaps have their own unintended consequences.

## ***The IWF Plan: "Adequacy" through System Overhaul***

The IWF proposal would replace the current system with one based on a "professional judgment" of the costs associated with a minimally adequate education. Under IWF's Adequacy Model, educational professionals identify components needed to create the typical school that has enough resources to enable students to attain the state's model educational standards developed by the Wisconsin Department of Public Instruction (DPI). The cost of those components is then estimated to determine the level of adequate funding.

Examples of required resources include maximum school and class sizes, broad curriculum, higher pay and more staff development, full reimbursement for special education and limited-English proficiency students, and extra resources for high-poverty schools such as smaller class sizes, tutoring and all-day four-year-old kindergarten.

The proposal for full adequacy funding would require about \$2.4 billion more than current school revenues, or about a 35 percent increase in per pupil expenditures to over \$11,000 annually. This is of course an unrealistic starting point in the current budgetary context. The unfortunate timing of the proposal was accidental: IWF began researching the proposal two years ago in brighter fiscal times. The daunting price tag, however,

should not mask the value of attempting to change the terms of the public dialogue. Focusing attention on education needs rather than an arbitrary, nine-year old cost structure would permit the public and policymakers to debate directly what constitutes an appropriate education in Wisconsin.

As evidence for the greater rationality of the adequacy model, IWF points to the lack of any statistical link between current per pupil spending and student performance on state tests. By contrast, the researchers did establish a correlation between per pupil spending under the adequacy model and student test performance. IWF claims on the strength of this correlation that its plan is performance-based, but there are no monetary rewards or penalties for high- or low- performing schools or districts.

The Adequacy Model is based on the “foundation approach” to school finance used in a majority of other states, and advocated before last year’s “Kettl” Commission on state-local issues by Allen Odden. Odden is a UW-Madison professor and recognized expert on school finance, who has advised Governors Thompson and McCallum. These approaches focus on students’ meeting standards of competency, rather than comparisons among students through standardized tests.

The IWF plan is thorough and well developed, but has gaps and uncertainties. Addressing the large price tag head-on, IWF maintains that the plan could be phased in over time, and funded at something less than “full adequacy”: for example, funding at 80 percent of Adequacy would cost only one-quarter of the \$2.4 billion full funding amount. One potential difficulty—politically if not legally—is that an adequacy model adopted by the legislature would arguably create a standard that, if not fully funded, could be used as evidence in a court challenge to insufficient state funding.

An even larger political barrier to be faced is the plan’s lack of a funding mechanism. The mix and distribution of state and local taxes needed to generate the needed revenues is not specified—details that might prove “devilish” in the legislature. IWF has suggested one example funding method would be to close current exemptions in the state sales tax. This would generate sufficient funds, but would face certain opposition from the business interests affected by the exemptions. The IWF plan could be financed with some variation on the funding mechanisms of the Lehman-Wood or Spence proposals below.

### ***Lehman-Wood: Dedicated Sales Tax Ends GPR Headaches?***

The proposal of Reps. Lehman and Wood would make school roughly similar to how Wisconsin funds state highways: providing a dedicated fund from a marginal sales tax increase. They contend that removing school funding from the general fund (GPR) budget would end contentious biennial school funding debates.

The Lehman-Wood proposal, like the IWF plan, would eliminate revenue limits, equalization formulas and the QEO. The sales tax rate would be increased and/or exemptions eliminated, and the additional proceeds deposited in a segregated fund with the current GPR amount, which would be frozen. Property taxes for schools would be

reduced by about two-thirds, and a school board “supermajority” could authorize a limited property tax for capital improvements (which would have to be approved by a state board), but district payroll could only be paid from the state fund.

In one respect, the Lehman-Wood plan is incompatible with IWF’s adequacy model. Under Lehman-Wood, the current level of a district’s costs would be the baseline for the first year funding under the plan. In future years, each district’s annual aids would be adjusted by a factor so that at the end of twenty years all districts would receive the same per pupil amount. The only exception to uniform treatment would be an unexpected increase in special education costs. This conflicts with the IWF’s professional judgment method of determining funding needs, which accounts for demonstrated links between student performance and particular district characteristics: high poverty levels among families in the district, limited-English proficiency, cost of living differences around the state, and unique funding issues for low-population rural districts.

The Lehman-Wood plan’s problematic features include a lack of a mechanism to adjust funding levels for changing circumstances in districts over time. In particular, the plan would eliminate the QEO and unfreeze teacher salaries, which would be attractive to teachers and many school advocates, but does not explain how districts would accommodate the inevitable upward pressures on salary costs within the plan’s rigid funding formula.

### ***The Spence Plan: Bringing Regional Disparities into Focus***

Under the proposal of the Milwaukee schools’ Board president, cooperative educational service agencies (CESAs) would allocate K-12 school revenues on a regional basis. The proposal was created for last year’s Kettl Commission deliberations, in which greater regional autonomy and cooperation were watchwords. It addresses a concern (often heard from Milwaukee educators) over disparities in funding between districts within the same region and between regions.

The proposal assumes as its starting point that an “adequate” per pupil funding amount has been determined, such as under IWF’s Adequacy Model, but explicitly adjusted for regional cost differences, as well as special education, low-income and limited-English proficiency. The state would pay two-thirds of the determined amount, and the remaining one-third would be generated by granting new taxing authority to each CESA. (CESAs are regional agencies that serve as a vehicle for groups of school districts within a geographic area to contract for programs and educational services.)

The new CESA taxing authority would include a regional property or sales tax, with an unspecified mechanism for equalizing regional tax bases. Districts that are now spending above the determined per pupil amount would be held harmless against cuts, and annual inflationary adjustments would be permitted. Districts would be permitted to levy a small property tax based on the “property-poorest” district in the region. The existing school levy tax credit, which would be eliminated under the IWF and Lehman-Wood plans,

would be converted to a property tax credit for districts that show improvements in student test performance.

One potential pitfall in the Spence plan is that it uses the concept of adequacy, but does not specify how that adequate level would be determined. Whether the IWF or some other estimation model was used, the cost (and resulting tax) estimate would certainly engender a political fight. It also does not specify how the additional funding for special education and low-income pupils would be calculated. It addresses disparities within and across regions, but leaves open the taxing mechanism—another likely source of political rancor.

### ***The Ellis Plan: Streamlining for Greater Equity***

Senator Michael Ellis's proposal is explicitly intended to address widely-held concerns about educational equity across the state. The Wisconsin Supreme Court found the state funding system met the constitutional equity requirements in the 2000 *Vincent v. Voight* case, but Ellis and many others contend that the system is still inequitable in practice.

Ellis's plan seeks to address disparities between districts in property wealth and relative numbers of children with special needs due to disability, poverty or limited English proficiency. The plan would start with a "basic grant" to districts based on the current level of per pupil funding, and add additional amounts for special needs. Funds for educating children with disabilities would be calculated on a three-tier system, based on the intensity of required services. The SAGE program of reduced class sizes for schools with low-income populations would continue, and some additional funding and flexibility would go to schools that have low-income students but are now below the SAGE eligibility threshold.

The basic grant amount would be a spending ceiling, replacing the current revenue limits. The state would continue to support two-thirds of spending through the general fund (GPR), but individual district property tax levies would be eliminated. One statewide property tax rate would be established to cover the remaining one-third of costs, and the state would collect and distribute those property taxes. The plan would allow inflation adjustments to tax rates and spending. Like the Spence plan, a statewide agency would approve capital spending projects, which would be funded with GPR from a separate equalized formula.

In some respects, the Ellis proposal is the most internally coherent of the published plans, by attacking directly the perceived primary issue of equity, and providing a thorough funding solution. It does not tackle the "adequacy" issue—instead, it freezes into place the spending levels that have followed from the 1993 legislative compromise. It permits some flexibility for changing demographic and special student needs, and provides a funding solution for facilities improvements that have placed a major squeeze on spending in older, poorer districts. However, the spending cap imposed by the basic grant approach may stymie efforts to make teacher salaries more competitive, and may effectively bar new programs to meet emerging issues.

### *Maryland Advocates Surprise Themselves with Success*

Earlier this year, WCCF's sister agency in Maryland, the Advocates for Children and Youth (ACY), created a broad coalition around a proposal that is very similar in concept to the IWF adequacy approach. Expecting a several year process, the coalition partners surprised even themselves when the proposal became law in April, even though many thought it impossible in an election year, with post-September 11 funding needs and major budget problems facing the state.

Like the IWF proposal, it was funded initially (through an increase in cigarette taxes) at only 15% of the \$1.3 billion in additional annual funding that the bill calls for to bring Maryland schools up to the adequacy level identified by experts. When fully implemented, the bill will significantly raise the funding level for all students and provides for additional increased funding for special education students, students living in poverty and students with limited English proficiency. (A student qualifying under all three would receive approximately four times the regular per pupil state grant.) The law also mandates for the first time full-day kindergarten for all Maryland children, and half-day pre-kindergarten for all low income children.

ACY built the coalition in support of a governor's commission on education finance that was studying reform proposals. Two studies were conducted. The first, sponsored by the advocates' coalition, was an adequacy study similar to IWF's based on a "professional judgment model," prepared by panels of principals, teachers, and academics to determine what services were deemed part of an adequate education, and how much that set of services would cost. Subsequently, the governor's commission conducted its own study based on a "successful schools" model, that looked at services in the top performing schools in Maryland, based on testing and other performance benchmarks.

ACY brought together coalition of over 50 organizations, including teachers' union, PTAs, ACLU, school boards, many of whom had been in deep conflict for many years. The coalition used a variety of tools to educate the public and legislators, including generating 30,000 letters to legislators from grassroots organizations. The two most effective tools were, first, a county by county breakdown of two separate statewide polls on the reform proposal, and showing the dollar amount that each county and school would receive, and the stagnating test scores in each county.

Secondly, a very effective website was created that included a form letter to legislators and served as a central information center among the coalition networks. The website was given credit for stopping a threat of a filibuster through an email campaign targeting every legislative district. Another key to success was the coalition's insistence to not get bogged down in how to pay for the proposal, which would have pitted two key partners, school boards and teachers' unions, against each other. ACY realized they were on to something big when the conservative Washington Times newspaper editorialized about "liberal groups" that were "manipulating public opinion" through the grassroots effort.

*Equity and Adequacy—Realizable Dream or Pie in the Sky?*

The sponsors of the various Wisconsin reform proposals deserve praise for contributing to a critically needed dialogue about school finance that avoids the traps of ideology and political posturing. Whether legislators will dare to touch the electrified rail of school funding in the absence of a perceived crisis is an open question. A lack of funds is not in itself a barrier to reform, since each of the plans could be implemented at current funding levels (although an adequacy approach is likely to entail a conclusion that the current system is seriously underfunded). Interested citizens can hope at least that these efforts presage a meaningful public debate in coming months.