



K-12 ON THE BALLOT

USING REFERENDA TO FUND PUBLIC SCHOOLS

Dale Knapp, Director

Executive Summary

K-12 On The Ballot

Since the state school revenue limit law was created in 1993, 356 school districts have gone to referendum asking voters for permission to exceed the limits for operating expenditures. Some were for temporary increases; others were for permanent ones. The vast majority of these districts used the referendum option multiple times. Overall, 58% of more than 1,500 referendum questions have been approved.

The result is that in 2023, \$650 million of K-12 public school revenues were local dollars approved by referendum. That amount was more than 5% of total school revenues and more than the \$517 million the state's 421 public school districts collected in state special education aid.

Among individual districts, reliance on revenues from successful referenda is much higher. In 2022, 100 districts relied on these dollars to fund more than 10% of their total education cost. In 11 districts, 25% of education costs were funded with referenda dollars. That included the Gibraltar and Washington Island districts in Door County where these dollars funded more than half of their costs.

Districts with declining enrollments have been more likely to go to referendum and more likely to have them approved. Those with four-year declines in the number of students were 1.3 times more likely to use the referendum option than those with rising enrollments. Districts with declines of 10% or more were 1.7 times more likely. Declining enrollment districts have approved 62% of their referenda compared to 53% for those with growing student counts.

Surprisingly, poor districts were more likely than others to approve operating referenda. When rich and poor is defined in terms of household income, the poorest 10% of districts approved 74% of their referenda since 2005. That compares to 62% for the top 30% of districts. A similar result holds when property value per student is used as a measure of wealth.

Wisconsin's revenue limit law was created in 1994 to limit growth in school property taxes. It was in response to average annual school levy growth of over 9% in the early 1990s. Since the law was put in place, K-12 school levies rose less than 2% in 13 years and less than 5% in 22 of 29 years.

Since 2012, allowable increases in the limits have lagged. In six of the 11 years since 2012, the limits were not raised. In the other five, increases ranged from \$50 per student to \$179 per student. For comparison, the lowest allowable increase prior to 2012 was \$190 in 1994.

The state did provide additional funds to schools after 2012 in the form of a per pupil categorical aid. Those dollars increased from \$50 per student in 2013 to \$742 per student in 2020. They have been unchanged since then. Since 2012, the sum of per student revenue limits and per student aid increased an average of 1.2% per year for the median district. For 392 of the state's 421 districts, average annual increases lagged average inflation. That compares to just 14 districts during 1994-2011.

K-12 On The Ballot

Using Referenda to Fund Public Schools

Dale Knapp, Director

In April of this year, 52 of the state's 421 school districts asked voters for permission to exceed their state-mandated revenue limits for operating purposes. Two districts—Elkhorn and Fort Atkinson—asked for both a temporary and a permanent increase. Just over half of the 54 referenda were passed.

In many ways, there was nothing unusual about 2023's numbers. The referendum option was created in the 1993-95 state budget as part of school revenue limit legislation. Since 1998, Wisconsin has averaged 57 revenue limit referenda per year, with an average approval rate of 59%.

The result of these annual referenda is that in 2022, just over 5% of statewide educational spending was funded via dollars approved in a referendum. That figure significantly understates the reliance on referenda dollars in many districts. Nearly a quarter of Wisconsin school districts relied on referenda dollars to fund at least 10% of their costs. In 14 school districts, referendum-approved funds paid for more than 25% of educational spending.

This annual ritual of voting on local school funding raises at least two important questions.

- Does Wisconsin's current system of funding K-12 education provide sufficient dollars to educate our children to the standards expected by today's public?
- Is the funding of local schools too state-centric, or does the referendum option provide sufficient local control over school spending?

To even begin to answer these questions, one needs some understanding of how Wisconsin schools are funded.

SCHOOL FINANCE BASICS

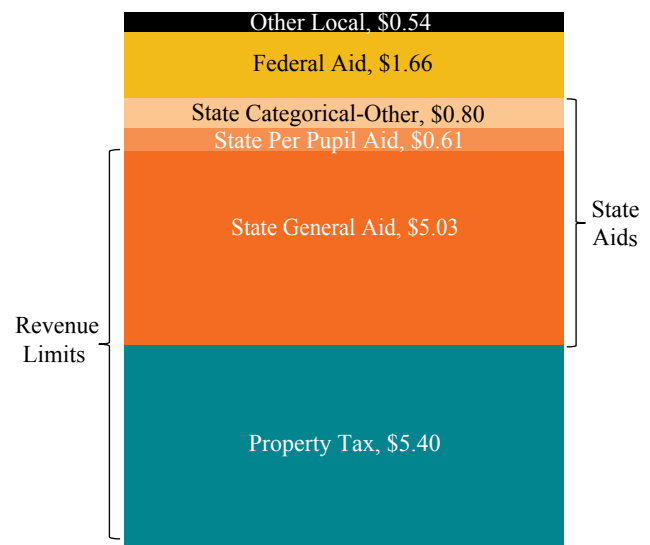
In the 2021-22 (2022) school year, Wisconsin's 421 public school districts spent more than \$14 billion on K-12 education. These dollars came from four broad revenue sources: State government, local property taxes, local fees and charges, and the federal government.

State Government's Large Role

State government is the largest funder of public K-12 schools. In 2022, it provided \$6.4 billion, an amount that was nearly 46% of total school revenues (see Figure 1).

State funding consists of two types of aid: general and categorical. General aids totaled more than \$5 billion in 2022 and are distributed via a formula that accounts for district spending and

Figure 1: Wisconsin Public K-12 School Funding Major Funding Sources, 2021-22 School Year, \$ Billions



Since 1994, 82% of Wisconsin school districts have asked voters to exceed state-imposed revenue limits at least once, with 58% of those questions approved.

property wealth. These dollars come with no restrictions on how they are spent.

By contrast, most categorical aids must be spent in particular areas, such as special education or transportation. The one exception is per pupil categorical aid which was created in 2011 and, like general aid, is unrestricted.

Local Property Taxes

The second largest funding source of public schools is the local property tax, accounting for just under 39% of 2022 school revenues. In 2022, school levies totaled \$5.4 billion. Most of the revenue from the property tax funds school operations. However, about \$856 million paid the borrowing costs for referendum-approved capital investments, such as new buildings, school renovations, athletic facilities, etc.

Other Revenues

The remainder of school funding comes from other local revenues (3.8% of the total), such as various fees and charges, and from the federal government (11.8%).

STATE REVENUE LIMITS

While the property tax is a local revenue source for school districts, local officials have limited control over it. Wisconsin's school revenue limit law caps the amount school districts can collect from the combination of state general aids and the property taxes that fund operations. For the typical district, these "limited revenues" fund about 80% of non-capital spending.

Revenue limits were first imposed in 1994 as a way to hold school property taxes in check. In the five years leading up to the law, school levies increased an average of 9.1% per year.

The limits are calculated on a per student basis, with lawmakers setting an allowable per student increase in each biennial state budget. Thus, the amount a district can raise under these limits is tied in part to whether it was a low- or high-spending district in 1993, the base year for the first limits, and whether its student population is growing or declining. Districts can exceed these limits via a voter-approved referendum.

Early Inflationary Growth

For the first 16 years, allowable increases in the limits grew steadily, rising from \$190 per student in 1994¹ to \$274.68 in 2009. With the state facing budget deficits heading into the 2009-11 biennium, lawmakers reduced annual growth to \$200 per student for both 2010 and 2011.

In addition to these annual increases, the state provided additional help for the lowest revenue districts. Lawmakers created a minimum per student limit of \$5,300 for the 1995-96 school year, helping 30 low revenue districts move closer to the average district. By 2007, that floor had reached \$8,400 and helped 87 districts climb nearer to the statewide average.

During the 1994-2011 period, the median annual increase in limited revenues per student, excluding any referenda approved, was 3.4%. During these years, 14 districts had average increases less than the average inflation rate of 2.5%.

A Cut, Then Lagging Increases

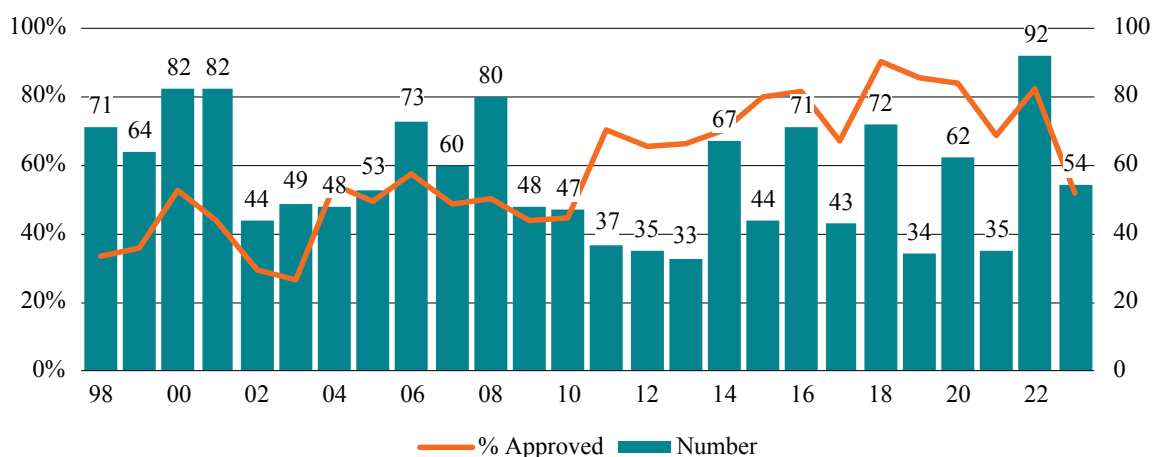
After 2011, allowable increases lagged. Facing large deficits in the 2011-13 state budget, lawmakers cut per student revenue limits 5.5% for the 2011-12 school year. This was paired with minimum health and retirement contributions for school staff that were designed to reduce school district costs. Some districts generated sufficient savings to offset the reduction, others did not.

Since then, revenue limits have been allowed to grow much slower than they did during 1994-2011. In six of the 11 years since 2012 the limits were not raised, including 2022 and 2023. In the other five years, allowable increases ranged from \$50 per student to \$179 per student.

During these years the state provided districts with additional dollars to supplement revenue

¹ In the first two years of the limits, allowable increases were the maximum of a set dollar amount or a percentage. For 1994, districts could increase per student limits by the greater of \$190 or 3.2%.

Figure 2: Number of School Operating Referenda, Approval Rates Fluctuate 1998-2023



limits. Recall that state per pupil aid has no restrictions on how it can be spent. Thus, it acted like a revenue limit increase and filled some of the gaps. The state provided \$50 per student in 2013. In six of the ensuing 10 years this aid grew, with increases ranging from \$25 to \$204 dollars. The last increase of \$88 per student occurred in 2020. In that year and subsequent years, districts received a total of \$742 per student.

While these dollars were helpful, the sum of limited revenues (excluding those approved by referendum) and per pupil categorical aids still increased slowly. For the median district, per student revenues increased an average of 1.2% annually from 2012 through 2023. For 392 districts, average annual increases lagged the average annual inflation rate of 2.4%.

THE REFERENDUM OPTION

The previous analysis removed all approved referenda to highlight the effects of annual per student increases, revenue floors, and per pupil categorical aid on school district finances. However, since the revenue limit became law, school district officials have asked voters to approve referenda allowing the district to exceed the limits.² This option is explored in depth here.

Taking Advantage of the Option

Since 1994, most of Wisconsin’s K-12 school districts have used the referendum option to exceed

their revenue limits. Of the 434 unique school districts³ during the revenue limit era, 356 (82%) have used the referendum option at least once. Most have used the option three times or less: 65 have used it once, 67 twice, and 68 three times.

Nearly 20% of districts have used the referendum option six times or more, with fifteen using it at least 10 times. Washington Island School District in Door County is one of the smallest public schools in the state and has put a referendum on the ballot 18 times. Six other small districts (Cuba City, Florence, Gibraltar, Lake Holcombe, Siren, and Wheatland) have done the same at least 10 times. Several of the state’s largest districts have also used this option many times. Racine, Stevens Point, and Sun Prairie have each use the referendum option 10 times or more.

Not all districts have had success with voters. Sixty-eight districts asked voters to approve more spending but were turned down. Among them, 33 held just one referendum, 18 held two, and 17 held three or more, with all of them failing.

Referenda by Year

Since 1994, 356 districts have put 1,513 operating referendum questions⁴ to voters, with 877 (58%) of them approved. Only a few referenda questions were put to voters during the first three years of revenue limits. That number jumped to 27 in

² The analysis here does not include referenda that ask to exceed the limits to pay for borrowing for new buildings or capital improvements. Only referenda to pay for additional operating spending are analyzed.

³ This includes 13 districts that existed in 1994 but have since merged into seven new districts.

⁴ On some occasions, districts put forth multiple referendum questions.

Districts with relatively large enrollment declines over four years are most likely to use the referendum option and have voters approve the new spending.

1997 and to 71 in 1998. Since then, the state has seen an average of 56 questions per year with a low of 33 in 2013 and a high of 92 in 2022 (see line in Figure 2 on page 7).

Although approval rates varied from year to year, Figure 2 shows a consistent uptick in approval (orange line) beginning in 2011. During 1997-2010, 44% of all referenda were approved. After that the rate jumped to 76%.

Two factors drove the shift. First, districts can ask for a temporary increase in revenue or a permanent (recurring) one. Approval rates for recurring referenda consistently lagged those asking for a temporary increase. During 1997-2010, just under half of all referenda questions were for permanent increases which brought down overall approval rates. Since then, just 25% were of this type.

The second factor is a general increase in approving referenda after 2010. Approval of recurring referenda increased from 34% prior to 2011 to 72% since then. For temporary (nonrecurring) referenda, rates rose from 53% to 77%.

Low Revenue Districts Less Likely to Use Referenda
Someone with little knowledge of Wisconsin school finance would probably guess that districts with relatively low per student revenue limits would be more likely to seek additional funds via referendum. However, that is not the case. In fact, the top 90% of districts in terms of per student revenues were twice as likely to use the referendum option as those in the bottom 10%.

There were two primary factors driving this. First, any allowable per student increase is a greater percentage increase for low-revenue

districts compared to those with higher limits. For example, a \$200 dollar bump for a district spending \$12,000 per student is 1.7% compared to 2.0% for a district spending \$10,000 per student. Second, and maybe more importantly, many of these districts received larger dollar increases as the revenue limit floor was increased in most years (see page 6).

While low-revenue districts were less likely to use the option, they were also less likely to get referenda passed. Over the entire period studied, 58% of all referenda passed. For low-revenue districts, less than half were approved.

Declining Enrollment Districts Use the Option

Districts with declining enrollments face a unique challenge. As student counts fall, these districts are allowed the same per student increase as those with rising enrollments. However, their total revenues can begin to stagnate and even fall as their allowable per student revenues get multiplied by fewer and fewer students.

One of many examples would be the Wisconsin Heights School District during 2005-09, a period in which allowable increases consistently grew. During this period, the number of students in the district declined 15.7% from 504 to 425. While the district's per student allowable revenues rose over the period, its total allowable revenues dropped by about \$500,000.

The challenge for these types of districts is finding savings of that magnitude. Eliminating a teaching position may have saved at most \$60,000 to \$80,000 per year, a fraction of the

Table 1: Referenda And 4-Yr. Enrollment Chg. 1994-2023

<i>Districts With Rising Enrollments</i>		
<u>Enrollment Chg</u>	<u>Pct. Going To Ref.</u>	<u>Pct. Approved</u>
>10%	6.9%	42.9%
7.5% to 10%	8.9%	51.5%
5.0% to 7.5%	8.1%	51.2%
2.0% to 5.0%	10.8%	44.3%
0% to 2.5%	13.4%	63.7%
<i>Districts With Declining Enrollments</i>		
<u>Enrollment Chg.</u>	<u>Pct. Going To Ref.</u>	<u>Pct. Approved</u>
0% to 2.5%	8.5%	59.6%
2.0% to 5.0%	13.7%	61.3%
5.0% to 7.5%	14.4%	56.1%
7.5% to 10%	15.3%	68.6%
>10%	16.1%	65.2%

needed savings. Districts also have many fixed costs (utilities, school maintenance, etc.) that only decline if a school is closed.

After failed referenda in both 2007 and 2008, Wisconsin Heights temporarily “solved” its problem in 2009 by passing a referendum to exceed the limits in 2010 and 2011. Since then, it has passed four more referenda to exceed the limits on a temporary basis.

The Wisconsin Heights experience is not unique. The number of districts with a four-year decline in enrollment climbed from 41 in 1994 to 287 in 2022. The number with declines of at least 5% rose from 10 to 140.

Declining enrollment districts were 1.3 times more likely to go to referendum than those with rising enrollments. The likelihood rises even further for those with large declines in their student populations: 1.6 times more likely for those with declines of at least 5% and 1.7 times for those with student losses of more than 10%.

Districts that are losing students also passed referenda at higher rates. Those with declining student counts approved 62% of their referenda compared to 53% for those with gains. Districts with four-year declines of more than 7.5% approved two thirds of their referenda.

“Rich” vs. “Poor” Districts

An important question to try to answer is this: Are “rich” districts more likely to approve school referenda than “poor” districts? Surprisingly, the answer appears to be “no.”

To examine this question, rich and poor are defined in two ways: equalized property value per student and median household income. The first measure allows examination of all referenda; the second allows analysis for only those from 2005 forward.

Since revenue limits were implemented, 58% of operating referenda have been approved. The top 30% of districts with the most property value per student approved 56% of their referenda. However, districts in the bottom 30% approved 63% of their referenda.

The results are similar when household income is used to measure rich and poor. Since 2005, 66.6% of operating referenda were approved. The 30% of districts with the lowest household income approved operating referenda at a 70% rate, com-

Table 2: Referenda Usage by Enrollment
2021-22 School Year

Students	Districts	Using Ref.		Ref. >10% of Exp.	
		Num	Pct.	Num.	Pct. of Users
<500	110	76	69.1%	51	67.1%
501-1,000	120	62	51.7%	27	43.5%
1,001-3,000	123	72	57.7%	18	25.4%
>3,000	67	43	64.2%	4	9.3%

pared to a 62% approval rate for the richest 30% of districts.

OPERATING REFERENDA DOLLARS

The amount of referendum-approved dollars funding K-12 schools has grown rapidly over the years. This funding increased from \$32 million in 2000 to \$180 million in 2010 and to \$650 million in 2023. For perspective, the \$650 million in 2023 is \$783 per student and an estimated 5.6% of education spending.⁵

Those figures, though, mask the extent to which many districts, particularly small ones, rely on referenda to fund their schools. In 2023, 258 of the state’s 421 school districts used referenda dollars to help fund K-12 education. That is up from 197 in 2010 and 71 in 2000.

The use of referenda dollars varies slightly by district size. As Table 1 shows, 69% of the smallest districts in the state used referenda funding in 2022, which was a bit more than the 64% of the largest districts. Districts with enrollments between 500 and 1,000 used the option the least with 52% accessing these funds.

However, referendum dollars fund a much larger portion of spending in small districts compared to medium-sized or large districts. In 51 of the smallest districts, referendum dollars paid for at least 10% of educational expenditures. Those 51 districts represented 67% of small district users. That compares to 44% in districts with 500 to 1,000 students, 25% in districts with 1,000 to 3,000 students, and less than 10% in the state’s largest districts.

In some districts, referenda dollars pay for a much higher share of spending. Gibraltar and Washington Island school districts are at the tip of Door County. Gibraltar serves 516 students while Washington Island serves 54. In 2022,

⁵ Educational spending excludes capital and food service expenditures. Spending for 2023 was not available and is estimated at 3% more than 2022 spending.

Referendum-approved funding for K-12 schools has risen from \$32 million in 2000 to \$180 million in 2010 and to \$650 million in 2023.

funding obtained via referendum accounted for 60% and 50% of these district's respective educational spending. Phelps School District, just northeast of Eagle River, was not far behind. The district covers 108 square miles and serves 107 students, with referendum dollars paying for 42% of its spending. In 11 other districts with enrollments ranging from 99 to 1,762 students, dollars approved in a referendum funded 25% or more of education spending.

PROS AND CONS

Wisconsin's school revenue limit law has its supporters and detractors. While not comprehensive, major points are summarized next.

Supporters

Those who support the limits generally cite two features of the law: its effect on property taxes and the local control feature of referenda.

As noted on page six, the limits were created to constrain the growth of school property taxes which were increasing rapidly in the early 1990s. In the 29 years since the law was put in place, annual increases in K-12 school levies were less than 2% in 13 years and less than 5% in 22 of those years.

The referendum option that is part of the revenue limit law gives local taxpayers some say in school spending. When district officials make the case to voters that additional revenue is needed to provide a quality education for its students, voters typically approve the additional funding. Over the past decade, when growth in the combination of limited revenues and per pupil categorical aids have lagged inflation, voter approval of operating referenda has soared from 45% prior to 2012 to 77% after.

Detractors

From the critics' perspective, this local control is often about a small part of district revenues. In 2022, revenues generated from referenda were just 4.6% of all non-federal school revenues. If only districts using referenda dollars are included, that percentage rises to just 6.7% of their non-federal revenues. In other words, critics might ask: If a public school district controls less than 10% of their revenues, is that really local control?

Many critics of the revenue limit law also believe allowable per student increases have been too small, especially over the past decade or so when the limits were not increased in six of those years. The state tried to address that with per pupil aids, yet the vast majority of districts still saw the sum of these two revenue sources, excluding referenda dollars, lag inflation.

Finally, detractors point to the fact that the limits are particularly hard on small, declining enrollment districts. Since the limits are based partly on student counts, declining enrollment can lead to stagnant or even falling revenues. Small districts do not have any economies of scale to deal with those declines which creates fiscal challenges. These are the districts most likely to have to use the referendum option. Critics would ask: What are these districts to do if a referendum is unsuccessful?

FINAL THOUGHTS

There is no easy answer here. The revenue limit law tries to balance sufficient school funding with limited local property tax growth. At the heart of the problem is finding agreement on what is "sufficient" funding.

This report raises an additional one: Is it good public policy to fund a significant portion of school revenues by referendum? It is unlikely that the creators of the revenue limit law anticipated such widespread use of the referendum option. Part of the explanation for higher usage is that for declining enrollment districts, these limits tend to reduce revenues faster than districts can cut costs. Moreover, the smallest districts have almost no ability to reduce spending.

Maybe the answer after 30 years of the limits is an in depth review of the law to see how it can be improved to continue protecting taxpayers and ensure adequate funding of our schools.

