

# School referendums are sending a clear message

## Will Wisconsin lawmakers hear it?



**By Anne Chapman, Wisconsin Association of School Business Officials (WASBO) research director**

The 2024 calendar year will be a high water mark in the history of school referendums in Wisconsin. With a success rate of 70%, almost half of Wisconsin school districts (190 or 45%) requested close to \$6 billion on ballot questions to support their local schools. The substantial majority (\$4.5 billion) is for capital projects with a wide range of purposes – from long-delayed maintenance needs to major facility improvements to entirely new school buildings.

At a smaller price tag but of much greater concern is the number and dollar amount of operating referendums in 2024 alone. With a record 148 ballot questions, about a third (131) of Wisconsin school boards asked their local taxpayers to exceed their collective revenue limits by \$1.4 billion. Congratulations to the districts where referendums passed. Hard decisions await those where referendums failed. Lack of support for their ballot measures will force many to undertake program and staffing cuts, go back to their taxpayers for another try next spring, or both.

This is all because a series of state policy decisions over the last 30 years have left public schools increasingly under-resourced. As a result, a school district's ability to persuade local taxpayers to pass operating referendums has evolved into an essential component of Wisconsin's school finance system. Districts that are not able to pass these ballot measures disproportionately must make spending cuts that harm the educational opportunities for the students they serve.

What follows is a commentary on the factors that have brought this situation about, why the option to go to operating referendum has become critical to public school survival, and what state policymakers can do to right the ship.

As advocacy efforts for the 2025-27 state budget heat up, we hope this article serves as a useful reference, giving context to your local district's financial condition; how it affects students and families; and the state's role in addressing these problems.

### **Operating referendums are keeping the lights on**

Headlines in the media would have you believe Wisconsin's 2023-25 state budget gave public schools "historic increases" in funding for the "next four centuries." But statements like these raise a number of questions. If that's true, why did 2024 set the record for the number of ballot questions asking taxpayers to boost operating dollars? To be precise, if public schools were flush with cash, why did 131 school districts hold 148 operating referendums to exceed state-imposed revenue limits by more than \$1.4 billion in 2024 alone? And why were such sums needed – not to carry out

new educational initiatives, but more often to maintain programs, class sizes, and financial stability?

What will happen to the districts whose operating referendums failed this year? And finally, how will districts make ends meet when the terms of their referendums expire?

Before answering these questions, it's important to note that what is happening in 2024 is not new. According to a recent study by Forward Analytics, "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." When more than four-fifths of school districts seek relief from the state revenue limit – the foundation of school resources – it suggests a fundamental problem with state school finance policy.

The decision to go to operating referendum to exceed school revenue caps is a local one. Every district faces a different set of economic, cultural and historical factors that persuade a school board to place a question on the ballot. Some communities are more disposed to vote "yes" and to do so repeatedly. Some, on the other hand, especially in the northern regions of Wisconsin, have never passed a referendum or have passed only one in the 30 years since the dawn of revenue limits. And these tend to be the most vulnerable communities in terms of access to resources – they tend to be small rural districts with the lowest revenue limits, declining enrollment, and relatively low household incomes.

But the factors leading to a successful referendum are not necessarily aligned with the differences between districts in terms of student need or the resources available to the district.

Most districts vet their ballot questions carefully by listening to their taxpayers. Through surveys, forums and other channels, districts try to maintain current services at an amount the community will support.

Most operational referendums are not for transformational investments.

Rather, they are asking for enough money to minimize program cuts, reduce deficits, or pull less out of their reserves. They're essentially keeping the lights on.

Those closest to everyday school operations – from parents and teachers to school board members and school administrators – cite these trends as proof of an underlying problem with the way Wisconsin funds schools.

Instead of budgeting with a predictable mix of state and local revenues that are sufficient to cover basic operations, districts find themselves in a never-ending cycle that forces them to face the uncertainty of local referendums for vital needs.

Others believe this is "exactly as it should be" – that operating referendums are a tool of local control that allows taxpayers to choose whether their schools should spend more than the state prescribes. Which is it and how did we get here? Answering that requires a clear understanding of how Wisconsin's school funding system functions today. What follows tries to provide that clarity.

**Three main drivers of referendums** A school district considers an operating referendum often after multiple years of limiting spending, cutting costs, delaying maintenance, closing school

buildings, depleting reserves and other strategies. By the time a school board makes the tough decision to ask the local community to pass an operating referendum (which sometimes, but not always, raises property taxes), it often is a last resort they hope will help stave off budget cuts that would harm students and threaten educational quality.

But why do so many districts consistently find themselves in this position in the first place? Is it a matter of the need to better manage local resources? Or is there a structural design flaw in state policy that puts them there?

The pervasive and growing use of operating referendums as a vital strategy on which school districts have come to rely originates in three overriding state-level drivers: 1) annual general spending authority that is not based on educational need and does not keep pace with inflation, 2) declining enrollment, and 3) minimal support for mandated special education costs.

**1) General school resources are arbitrary and trail far behind inflation** The state determines the vast majority of resources for schools through a statutory formula that determines revenue limit per pupil (plus a smaller source called per pupil aid). The revenue limit for each school district consists of general state aids and property taxes. It is capped on a per pupil basis, meaning that, at a given revenue limit level, the more a district receives from state aid, the less local property owners pay in property taxes. This revenue/spending cap has not always been in place. The legislature established revenue limits for school districts in the 1993-95 state budget as one component of a larger strategy to control rising property taxes. Prior to that, there was a system of true local control – where it was locally-elected school boards, not state politicians, who decided whether and how much to levy in property taxes to supplement state aids (which are designed to equalize local capacity to pay for education based on property wealth). When revenue limits were imposed on school districts, a local option was provided wherein a school board could call for a referendum to exceed the revenue limit. This option preserved a last vestige of local control.

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**-Anne Chapman**

However, the practical impact of operating referendums is not to supplement already adequate resources, but to fill gaps in funding for basic educational needs created by state policy. The legacy of the revenue limit law today is a school finance system that has eroded almost all local control and that arbitrarily funds students differently in every district.

To begin with, unlike school finance policy in almost all other states, general per pupil spending levels in each Wisconsin school district are not based on anything related to educational need, the resources required to meet those needs, or the capacity of taxpayers to cover their costs. Specifically, the revenue limit in a given district does not account for how many students with disabilities, English learners or students experiencing poverty they enroll. It does not help equalize resources based on the income of the families who live there, how much it costs to transport students in that area, or what the local labor market for teachers and staff demands to compete with other districts or private industry. Rather, each district’s revenue limit is based on how much it happened to be spending per pupil over 30 years ago. This setup bakes those disparities into

Wisconsin's current school funding system, effectively punishing districts that were relatively frugal in 1993-94.

The inter-district disparities the revenue limit law has created today are stark. Districts locked at the lowest levels are capped at about \$11,000 per pupil, while some districts are allowed to spend as much as \$25,000 per pupil. This perpetuates a pattern where, in some cases, low-revenue districts are surrounded by districts with thousands more to spend per pupil. Imagine how much harder it is for those districts to attract and retain both staff and students or how their needs might have changed since they were locked into these relative spending disparities three decades ago.

Despite all this, revenue limits, when they were first established at least, were designed with automatic increases that tracked the consumer price index. But that changed in 2009-10 amid the Great Recession with legislation that severed the automatic tie between revenue limits and inflation as a way to help the state balance its own budget. That fiscal emergency has long since passed, and the state now has amassed a surplus of \$4.6 billion, plus almost \$2 billion in a rainy day fund.

The critically important inflationary indexing for school revenues has never been restored, however. Not surprisingly, school district general revenue caps have been falling behind inflation ever since, with the gap growing to more than \$3,380 per pupil by the end of 2025.

Based on 2023-24 statewide public school enrollment, had annual general revenue increases been allowed to track the increase in inflationary costs all along, school districts would have had \$2.6 billion more in their base revenues in the 2023-24 school year. That's almost twice the total dollars school districts collectively asked for in operating referendums during the 2024 calendar year (\$1.4 billion). Had state policy followed the prudent and rational path of allowing school district resources to keep up with the expected rises in costs attributable to inflation, we might not be seeing anywhere near the number and dollar amount of operating referendums that we do today.

**2) Declining enrollment** But it's not just inflation impinging on school districts' fiscal health. As the terms "revenue limit per pupil" and "per pupil aid" imply, Wisconsin schools' general budgets are funded based on their enrollment. That works well when enrollment is on the rise.

But, due to demographic trends like falling birth rates, enrollment is dropping in most school districts. Statewide, public school enrollment is down by almost 5% since 2019-20, a trend that has accelerated in recent years and is even projected to pick up speed – enrollment over the next five years is projected to fall by another 7%!

What does this have to do with school finance and referendums? It's simple math. When enrollment is falling, revenues are cut much faster than costs go down. Districts with falling enrollment lose the per pupil revenues associated with those students. But that doesn't mean they lose almost any of the costs they had before they saw such enrollment drops, especially in the short run.

In any given year, enrollment losses occur across the whole K-12 grade span. That means schools still have the same number of classrooms. They have to employ and attract the same number of teachers and staff – which represents 70-80% of most district budgets. But also, they must pay

roughly the same for utilities, maintain the same number of school buildings, purchase the same amount in curriculum and equipment and so on.

And the cost of all of these items goes up with inflation. Recall, even if enrollment were level, school districts lose buying power with every passing year because state policy on annual changes to per pupil revenues has not kept up with inflation for the past 16 years. But for the dozens upon dozens of districts in declining enrollment, this disparity between basic costs to continue and the revenues coming in has made the fiscal situation untenable. Cue the difficult decision (that falls disproportionately on declining enrollment districts) to ask local taxpayers to fill in the gap left by the state by placing an operating referendum question on local taxpayer ballots.

Declining enrollment provides a stark illustration of how school districts have come to rely so heavily on operating referendums to meet their basic obligations.

**3) Insufficient resources for special education** The third major factor affecting districts' growing dependence on operating referendums is state underfunding of special education costs. Public schools are distinct in that state and federal law ensures that they provide special education and related services that are individualized to the needs of students with disabilities, free of charge, no matter the nature or severity of their disabilities.

Every district in Wisconsin provides these services, and the costs associated with fulfilling this mandate can be substantial. However, the state and federal government are not, in turn, required to provide the resources needed to cover the additional costs that local school districts are required to bear. Special education is the quintessential example of the term "under-funded mandate."

As of 2023-24, the state covered only 32.4% of those costs after federal funding was applied. That leaves local districts to cover more than two-thirds of costs to serve their students with disabilities. Statewide, that amounts to \$1.16 billion. Effectively, the state and federal policy of underfunding special education amounts to a cut of more than a billion dollars from school districts' general education budgets. This cut affects every single student in Wisconsin, as those general funds are the resources used in staffing, programming, facilities and services that serve all students, including students with disabilities. And because school district general funds are capped by the revenue limit, the underfunding of special education can be linked directly to the growing use of operating referendums to make ends meet. Conversely, the dollar amount needed to fully fund special education costs in 2023-24 could have been covered by the total amount requested in operating referendums in 2024, with more than a quarter of a million dollars left over!

Amid overall enrollment declines across the state, the number of students with disabilities has been on the rise since 2019-20 and is projected to increase by 2.4% by 2028-29. Until the state special education funding flaw is fixed, it will continue to shrink resources for schools and drive the need to go to operating referendum.

Each of these major drivers – general revenues that can't keep up with inflation, declining enrollment and inadequate resources for special education – are key determinants of a school district's fiscal stability, and yet are out of district control. Any one of them would be enough to place many districts under fiscal duress. But the combination of all three weakens the fiscal

stability of virtually every Wisconsin district. It is no wonder local communities across the state increasingly are taking matters into their own hands through operating referendums.

### **Fix the flaws to reduce the need for referendums**

Bringing this around to the key question we started with – are operating referendums a needed mechanism of local control or, rather, a local response to what has become an inadequate and inequitable state funding system? It's actually both.

But as this discussion shows, districts would have much less need for the former if it weren't for the latter. Operating referendums have become a fundamental but unintended consequence of Wisconsin's school funding policies over the last three decades. But the combination of outdated revenue limits and the reliance on operating referendums they impose on school districts is a capricious, unfair and inadequate way to provide basic resources to schools. It places more value on some students than others. It pits school districts against each other and the educational needs of students against local property taxpayers. Most critically, it fails to provide the resources needed to provide every student in Wisconsin with a sound basic education, as the constitution requires.

It should also be noted that operating referendums were designed to be a rarely used mechanism to allow local taxpayers to exceed adequate school spending authority, not to pick up the pieces of a broken state school funding system.

Ironically, the broad and growing use of operating referendums suggests the legislative intent of the revenue limit law to limit property taxes has backfired. Had state policy retained some combination of true local control over school resources, inflationary revenue limits, and robust funding for mandated special education services, we might have seen the need for and amount of operating referendum dollars today largely disappear. And that's before even addressing the fiscal impacts of declining enrollment.

The previously mentioned Forward Analytics piece sums up the key question before policymakers: "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... 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."

### **Start with the 2025-27 state budget**

The timing could not be better for policymakers to undertake such a charge. While the effort to address the structural problems described will require long-term policy solutions, the biennial state budget is a crucial place to start. Over the next few months, Gov. Tony Evers will be crafting his 2025-27 state budget proposal, and state legislators will be putting forward their proposals throughout the spring and summer of 2025. As both the governor and legislature deliberate on provisions for public schools, a wide range of constituents will be asking them to fund a variety of worthy priorities, each according to the unique educational needs of a particular community.

How can lawmakers meet the needs of such a disparate set of interests and populations? They could make a strong start by targeting the structural funding flaws outlined above. To do so, an ideal funding package for public schools in Wisconsin in the 2025-27 state budget would, at minimum: 1. Increase the revenue limit per pupil to match projected inflation for the next two years.

2. Give an extra boost to the districts with the lowest spending capacity so that most districts' revenue limits are within at least 10% of each other.
3. Allocate enough state aid to minimize property tax increases as a result of moving the revenue limit up.
4. Provide a substantial increase to special education funding to cover at least 60% of the cost of providing services to students with disabilities, and make sure that funding is guaranteed and will not be prorated if costs are higher than anticipated.

These four items will not fix the long-term problems Wisconsin state funding policy has created for public schools. But they could go a long way toward reducing the need for operating referendums (a mechanism of local control that, nevertheless, should remain available to elected school boards). Taken together, these provisions would benefit every single school district in Wisconsin; make meaningful progress toward closing funding gaps between the lowest and highest resourced schools; and garner substantial resources to the most students with the most flexible dollars so that every community can allocate them for what they see as their highest priorities.

This package is also exceptionally reasonable. It represents only an initial set of common-sense proposals that can be addressed in the upcoming state budget. It does not make up for the entire \$3,380 of accumulated lag between resources for schools and inflation.

It does not fully fund special education costs for public schools (as state policy currently does for private schools that accept vouchers under the Special Needs Scholarship Program). And it does not make needed structural changes to account for the fiscal challenges that declining enrollment imposes on schools. These are all critical factors that lawmakers will eventually need to address if they wish to put school districts on strong financial footing long-term and in a way that does not place the burden of school sustainability on local taxpayers through operating referendums.

Our children can't wait for us to take these first important steps. Each state budget that fails to meet the basic needs of public schools represents two whole school years in the life of a child, 15% of their K-12 school career. Imagine how much educational opportunity is foregone for those kids in that time. Now imagine their schools have the resources they need for the limited time entrusted to us to prepare them for lives, careers, and leadership of our communities. State leaders have it in their power to adopt a 2025-27 state budget that goes a long way toward that goal by including a few common-sense but high-impact provisions, as described here. Without them, the trend toward more operating referendums for more and more money just to keep schools afloat is unlikely to abate anytime soon.

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