



WISCONSIN LEGISLATIVE COUNCIL

REVIEW OF STATE SCHOOL AID FORMULA

Legislative Fiscal Bureau Conference Room
Madison, Wisconsin

October 5, 2006
10:00 a.m. - 5:30 p.m.

[The following is a summary of the October 5, 2006 meeting of the Special Committee on Review of State School Aid Formula. The file copy of this summary has appended to it a copy of each document prepared for or submitted to the committee during the meeting. A digital recording of the meeting is available on our Web site at <http://www.legis.state.wi.us/lc>.]

Call to Order and Roll Call

Chair Olsen called the meeting to order. The roll was called and it was determined that a quorum was present.

COMMITTEE MEMBERS PRESENT: Sen. Luther Olsen, Chair; Sens. Alberta Darling and Jon Erpenbach; Reps. Brett Davis, Jeffrey Mursau, Pat Strachota, Debi Towns, Amy Sue Vruwink, and Mary Williams; and Public Members Gary Andrews, Robert Borch, John Burnett, John Gaier, Nancy Hendrickson, Dianne Lang, Michelle Nate, Andy Reschovsky, and Ron Welch.

COMMITTEE MEMBERS EXCUSED: Sen. Julie Lassa; Rep. Jason Fields; and Public Member Todd Berry.

COUNCIL STAFF PRESENT: Russ Whitesel and Mary Matthias, Senior Staff Attorneys.

APPEARANCES: William Andrekopoulos, Superintendent, Milwaukee Public School District; Mel Lightner, Superintendent, and Gary Kvasnica, Director of Business Services, Kimberly Area School District; Gerald Trochinski, Superintendent, and Karren Balzar, Financial Manager, Phillips School District; Richard Parks, Superintendent, Phelps School District; Thomas Evert, Superintendent, and Doug Bunton, Director of Business Operations, Janesville School District; Susan Alexander, Markesan School District; Randal Rosburg, Somerset School District; and James Friesen, Owen-Withee School District.

Approval of the Minutes of the September 13, 2006 Meeting of the Special Committee

Representative Williams moved, seconded by Representative Vruwink to approve the minutes of the September 13, 2006 meeting of the Special Committee. The motion passed on a unanimous voice vote.

Chair Olsen's Remarks

Chair Olsen welcomed committee members and thanked all of the speakers for their assistance to the committee.

Brief Description of Material Distributed

Russ Whitesel briefly reviewed an article entitled, *Must Enrollment Declines Spell Financial Chaos for Districts*, that had been mailed to committee members prior to the meeting.

Invited Testimony by Selected School District Administrators

William Andrekopoulos, Superintendent, Milwaukee Public School (MPS) District, stated that he is optimistic, yet concerned, about the financial future of MPS. He described the financial condition of the district and described various budget-cutting measures that district has taken over the past several years as it has dealt with a structural deficit. He said that special education, utility, transportation, and open enrollment costs have all been increasing rapidly. In addition, increases in the costs of health care have been a big financial drain on the district budget. Mr. Andrekopoulos stated that MPS has had to close schools, renegotiate contracts, reconfigure transportation zones, and make cuts to the central administrative budget. He said that MPS had cut all possible fat from its budget and now has been forced to make cuts that are affecting the classroom. Over the past four budgets, the district has eliminated 877 teaching positions. Counseling, music, and art positions have been hard hit. He said that the quality of education in the district is under threat.

Mr. Andrekopoulos explained that even though the budget has been cut, the district continues to focus on improving instruction in the classroom. He described these efforts and said that they have resulted in academic gains for MPS students. Graduation and attendance rates have improved.

Mr. Andrekopoulos provided the committee with a list of ways the state could assist MPS and other districts:

- Increase funding for the SAGE program.
- Adjust the equalization aid formula to account for voucher students.
- Increase rates of reimbursement for special education and P-5 programs and index the reimbursement to keep pace with costs.
- Establish a set-aside for utility and transportation costs.
- Increase funding for bilingual education.

- Provide significant support for after-school and community learning center programs.
- Increase funding for four year-old kindergarten.

Mr. Andrekopoulos emphasized the importance of providing increased categorical aids to school districts. He said the decline in categorical aids, especially for special education, has caused significant problems for school districts.

In response to a question, Mr. Andrekopoulos said that under current cost controls, eventually the district will not be able to function because it will not be able to afford enough teachers to operate. He stated that the biggest issue in affordability of teaching staff is health care costs. He said that unless the bigger societal issue of escalating health care costs is addressed, education funds will continue to feed the health care industry instead of providing for children's educations. He said that the index for revenue limits should be connected to the actual cost drivers for school districts and stressed that school districts have no control over health care costs. He said MPS has never held a referendum to exceed the revenue limit for operating costs. He pointed out that Milwaukee is the seventh poorest city in the United States, and that to increase taxes for city residents is not feasible. He questioned the rationale of tying school funding directly to property taxes, and suggested a statewide sales tax as an alternative.

Mr. Andrekopoulos closed his presentation by restating his key request that the state increase categorical funding for special education, SAGE, K-4, and K-5 programs.

Mel Lightner, Superintendent, and Gary Kvasnica, Director of Business Services, Kimberly Area School District, explained the Kimberly Area School District is a fast-growing district that has unique budget challenges because it is a low-spending district. He said that student ACT scores need to be raised, and that a significant effort began in 1997 to raise student achievement by reducing class sizes and training educators. He said the voters have passed referendums for facility construction, but that it took several tries for the referendums to pass.

Mr. Kvasnica said the district "sealed its fate" by being a low-spending district at the time revenue limits were put into place and emphasized that growing districts have revenue needs as well as declining enrollment districts. The speakers described the various cost-cutting measures the district has taken, including the elimination of some programs and positions, outsourcing, and negotiating limits on post-retirement benefits. Mr. Kvasnica said the costs of health insurance, especially post-retirement benefits, are a financial drain in the district. He said that \$750,000 of the district's \$34 million budget now goes to pay for post-retirement benefits. He said that the outsourcing of special education is not an option because a district loses categorical aids if it does so.

Mr. Kvasnica stated the needs of every district are unique and suggested that districts be given the flexibility to exceed the revenue cap by 1% to 3% for a year or a number of years to provide revenue for capital improvement projects and building maintenance. He said that school board members are duly elected to represent the citizens and therefore it is appropriate that they be given this authority.

In response to a question, Mr. Kvasnica explained that voters tend to vote against referendums to exceed the revenue caps because the public does not understand school finance and they think if a district asks for a referendum it is not doing its job properly.

In response to another question, he said the qualified economic offer (QEO) should not be abolished since it operates as a “basement,” and the teachers in the district need and deserve a raise. He said it is difficult for the district to retain experienced teachers because the pay scale for longer-term teachers in the district is relatively low. When asked whether merging with one or more other districts would improve the financial situation, he stated that the biggest cost to the district is teachers, and a merger does not decrease the number of teachers needed and, therefore, would not result in significant savings.

Mr. Lightner emphasized the importance of school districts having enough money to provide for staff development. He said major advances are being made in the understanding of how kids learn and these advances must be transferred to the classroom to ensure that student achievement continues to increase.

Gerald Trochinski, Superintendent, and Karren Balzar, Financial Manager, Phillips School District, and Ms. Balzar described the unique challenges facing their school district, which has declining enrollments resulting in a revenue loss of \$150,000 per year, very low student population density, and increasing rates of poverty. They explained that even though enrollment is declining, the number of students in special education programs is increasing, and the local communities have no other resources to provide to these needy students and their families. Because of the large size of the district and low population density, the district’s transportation costs are \$720 per student and some students have a nearly two-hour bus ride to school. They explained that despite these factors, their overall spending per pupil is relatively low.

Although poverty rates in the district are increasing, the percentage of the district’s budget funded through state aid has decreased. This is because the overall property value of the district has increased due to the “lake effect: rapidly increasing value on lakeshore property.” A referendum in 2005 to exceed the revenue cap for operating expenses for five years failed partly because of well-funded opposition from owners of vacation property in the district who are not year-round residents or are retired. Mr. Trochinski explained that the opposition provided very misleading information to the voters and the district did not have the resources to get correct information out to the voters. Mr. Trochinski said it will be difficult to continue to get qualified people willing to serve on the school board since its hands are now tied by the failure of the referendum.

The speakers described the effects that failure of the referendum has had on the district, which was forced to cut \$1 million from its budget over two years. The district had to close a “Promise” school, eliminate and reduce positions, eliminate a bus route, eliminate driver’s education, reduce the gifted and talented program, and cut 20% of the co-curricular budget. The speakers explained that when a community school closes, economic development in the community is “dead.” Class sizes are rising and, for the first time, student test scores are falling. The budget forecast indicates that with expected budget reductions due to declining enrollments, the district’s reserve fund balance will be at 0% by the 2011-12 school year.

Mr. Trochinski and Ms. Balzar made the following recommendations to the committee:

- Include “sparsity” (very low population density) as a factor in any school aid funding formula. One proposal would provide state aid equal to 5% of a district’s cost per member

for districts with a density of three to five students per square mile and 10% of the cost per member for a district with a density of less than three students per square mile.

- Provide a five-year rolling average option for calculating district membership to ease the transition for declining enrollment school districts.
- Provide adjustments to the state aid formula for districts that were low-spending in 1993 and continue to be low spending.
- Make legislative changes necessary to allow all Payment in Lieu of Taxes (PILT) funds available for national forest lands to remain in Wisconsin rather than being returned to the federal government.
- Create an additional category of transportation aid for distances beyond the current limits.
- Allow for preschool special needs students who attend school all day to be counted as one child, not as 0.5 child.
- Reduce testing requirements.
- Provide funding for gifted and talented students.

In response to questions, Mr. Trochinski stated that the fact that the referendum was defeated does not indicate that the district residents do not value the education of their children. He said it is difficult to compete against a well-funded opponent in a district where 43% of the students are poor. He also said that it might be a positive step to take schools off the property tax or to develop an entirely new school aid formula. He pointed out that local businesses cannot attract managers from outside the area because they do not consider the school system to be good enough for their children.

Richard Parks, Superintendent, Phelps School District, described the Phelps School District. It is a small rural district, with declining enrollment, currently at 160 students, one school building, and a certified staff of 21. Two-thirds of the district consists of National Forest Land. The district meets the criteria to be classified as “high-performing” and its schools have received various awards. There is a high level of community involvement with the school. The school tax levy has increased from \$1.6 million in 1997-98 to \$2.5 million at present. Over nine years, the equalized valuation of the district has increased by 199% also because of the “lake effect.” On a per student basis, the equalized value has increased from \$636,563 to \$2.5 million, a 299% increase. Enrollment is declining because many people, especially young families buying their first homes, can no longer afford to purchase property in the district. It is also difficult for teachers to afford to live in the area on their relatively low salaries. Attracting new teachers is especially difficult since they must purchase homes at the recently inflated prices.

Mr. Parks said that all possible cuts have been made and that in order to maintain a sound fundamental education, costs to operate cannot be cut further. He said two recent referendums did pass, the second by a larger margin than the first. He said it may be easier to “pitch” a referendum in his district because it is very small. He said if the referenda had not passed, the district would not have been able to continue to operate. Also, residents have seen other communities close schools and they do not want that to happen in their district.

Mr. Parks told the committee his district needs additional funding for the SAGE program, transportation costs, and special education and funds to account for the large acreage of non-taxable National Forest land in the district.

In response to questions, Mr. Parks said to help districts like his it may be necessary to institute the use of multipliers in the school aid formula for anomaly situations. The formula should also address situations where property values increase at an unusually fast pace, and to account for the existence of untaxed forest land in a district. He also stated that “sparsity” should be considered for low enrollment districts, and pointed out that a district must pay a teacher the same amount to teach four kids as to teach 20.

Thomas Evert, Superintendent, and Doug Bunton, Director of Business Operations, Janesville School District, described the Janesville School District. He provided data on enrollment, numbers of students in programs such as special education, School Choice, English language learners, numbers of homeless and autistic children, student academic achievement, the district budget and the allocation of resources in the district compared to the Wisconsin average and other large districts.

Mr. Bunton described Janesville as an average district. He stated that there is a fundamental flaw in the school aid formula. If a district’s enrollment is steady or declining, it is inevitable that the revenue stream will not keep up with costs and eventually a district must cut back on operations. He said the issue for the committee to consider is at what point is it appropriate to stop “drawing down” a district. He said the Janesville School District believes the committee must do more than just “tweak” things a bit to keep struggling school districts going. He said the committee needs to “seek many solutions.” He said eliminating the QEO is not enough. He said the current system creates animosity between groups that need to work together.

In response to questions as to why the district has not held a referendum to exceed the revenue cap for operating expenses, Mr. Evert said the district held a referendum to exceed the cap for facilities and did not think it was feasible to also ask for increased operating expenses. He said there is a fundamental governance issue to be resolved--whether school boards are to be truly representative of the voters or are to be required to continually go to referendum to operate their school district. He said holding a referendum is very time-consuming and districts are at a disadvantage because they are prohibited from advocating in favor of the referendum. He said local control has been reduced to making decisions as to what the district will do without. He said we need to determine how our society as a whole will address the needs of special needs children and the rising numbers of children who are English language learners. He said the school aid formula is incapable of addressing these unexpected changes in our society.

Susan Alexander, Markesan School District, described the Markesan School District and the fiscal challenges it faces. She said Markesan has a clear, well-articulated vision of the educational experience it wants to provide for its children and provided a list of specific targets identified by the district for achieving those results. She said Markesan is a declining enrollment district in which much of the property value is concentrated around Big Green Lake. She said that although land valuations in the district are rising, personal income is not. She said the district is well-managed and fiscally conservative.

Ms. Alexander said that revenue limits are seriously harming the district. Markesan was a low-spending district when the revenue limits were established and it has lost 37% of its enrollment since then. This has created a revenue gap. She said the declining enrollment exemption is insufficient to fill the gap. She described the steps the district has taken to live within the revenue limits. The district reduced expenses by \$1.5 million over the past six years, including settling teacher contracts at the minimum 3.8% for several years, negotiating a salary freeze for teachers, support staff, and administration for 2005-06, and reducing post-retirement medical benefits. The district has a relatively low-cost, self-funded insurance plan.

Ms. Alexander said the district will hold a referendum to exceed the revenue cap for operating expenses in November. A similar referendum was defeated in April 2006. She said if this one fails, the school board will likely vote to dissolve the district in July 2007. She described the negative impacts to the district of living under the threat of dissolution, and described the negative impacts to students if the district is forced to consolidate with a neighboring district. She said residents will continue to pay taxes for schools, possibly more than they do now, but they and the children will not be served as well. In addition, communities typically suffer economic decline when a school in the community closes. She said small communities are part of the rich heritage of our state and we should be trying to preserve them.

Ms. Alexander asked whether it was the goal of the Legislature to reduce the total number of school districts in the state, since that will be the ultimate result of the revenue caps. She said voters believe the state-imposed revenue limit must be a reasonable budget ceiling and if a referendum is held it is because the school district administration simply cannot balance a budget. She urged the committee to increase the low revenue district per member minimum and share with the state citizens that revenue limits were not designed to hold districts to a reasonable budget but rather to create a dialogue about what a district is willing to support.

Randal Rosburg, Somerset School District, described the Somerset School District and its detailed strategic plan for meeting its goals. He explained that the district is on the state border with Minnesota and has many affluent residents who work in the Twin Cities. He said the enrollment of the district is growing rapidly: it has increased by 54% since 1994, and is predicted to grow another 11% by 2014.

Mr. Rosburg described factors that are out of the district's control that affect the district's attempts to budget, including increasing enrollment, increasing equalized property values, and decreasing state aid. These have resulted in increased local tax levies for the past 15 years. He said revenue limits have resulted in the loss of local control, increased class sizes, insufficient funds to hire new teachers, stagnant budgets for classrooms, athletics and activities, reductions in class trips and staff development, and increased student fees.

Mr. Rosburg explained that the increasing property values in the district have made it difficult for new teachers to afford housing in the district even though recent total settlements have been above QEO amounts.

Mr. Rosburg noted that three-year averaging for district membership counts results in delayed funding for students, larger class sizes, and inability to hire needed teachers. He said new students often arrive after count dates. He said the district is unable to participate in the SAGE program because there

are no additional classrooms available for the expansion needed to achieve the required 15:1 student to teacher ratio.

Mr. Rosburg said that research shows that low taxes are not the key to creating jobs and income in a state, and low taxes are associated with a low level of services. He said spending on K-12 education can be a significant contributor to economic growth. He suggested that when trying to determine the appropriate level of funding for schools, the process should be to first determine the desired product and then calculate the investment needed to produce the product. In the case of Wisconsin schools, he said the committee should determine how much funding is needed per pupil to educate Wisconsin students to a rigorous proficiency standard. He suggested establishing a system of weighted student funding that follows the student, and varies to meet the needs of the individual student. He advocated for local involvement and control in school budgeting and diversifying the funding streams to lessen reliance on property taxes. He also stated that revenue limits should be eliminated and that schools should be allowed to assess an impact fee upon new housing development.

James Friesen, Owen-Withee School District, described the Owen-Withee School District, which was consolidated in 1955. The district is in the top 20% in the state in the receipt of state aid, and many of the students come from low-income families. The teachers are among the lowest paid in the state with a base salary of \$24,438 and a salary maximum of \$49,073. The district offers neither extensive benefits nor a lucrative retirement package.

Mr. Friesen stated that the major problem in school funding is the revenue cap. He said the per-pupil increase has not kept pace with the 3.8%, compensation packages that QEO requires. He urged the committee to take steps to slow the decline in resources available for declining enrollment districts. He said loss of students does not equate to the ability to reduce staff. He asked for flexibility in the SAGE program, particularly the ability to have slightly larger classes in the third grade. He said the open enrollment system has a negative financial impact on the district. He explained that the state in effect penalized the district for receiving an increase in Title I federal funds due to being a low-income district. He explained that when the Title I funds were increased, state aid was decreased and district residents had to pay higher taxes. Finally, he noted that the district has a high number of students receiving special education and the district currently spends 6% of "regular" education money to fund special education.

In response to questions, Mr. Friesen said consolidation does not result in cost savings to the state. He said the district already shares staff with a neighboring district and utilizes distance education. He suggested that the law be amended to allow for the creation of union high schools. This would allow districts to keep their K-8 schools and consolidate with neighboring districts on the high school level.

Discussion of Committee Assignment and Plans for Future Meetings

Chairperson Olsen reminded committee members that the next meeting of the committee was scheduled for *Wednesday, October 25, 2006, at 10:00 a.m., in the Legislative Fiscal Bureau Conference Room*. The fourth meeting of the Special Committee was subsequently scheduled for *Friday, November 17, 2006, at 10:00 a.m., in the Legislative Fiscal Bureau Conference Room*.

Adjournment

The meeting was adjourned at 5:30 p.m.

MM:tlujal