



INSTITUTE FOR WISCONSIN'S FUTURE
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To: Members of the Legislative Council Committee-*Review of State School Aid Formula*

From: Jack Norman (jnorman@wisconsinsfuture.org)

Re: Follow-up on my presentation of October 25, 2006

Thank you again for the opportunity to speak with you at your last meeting. I'm writing now to follow up on three items that arose during the discussion.

First: I was asked about the 'adequacy justification' for my proposals. I referred to earlier work on this (which I did not discuss in my presentation), especially the 2002 report, *Funding Our Future: An Adequacy Model for Wisconsin School Finance*. I won't attach a copy because it's about 100 pages, but a PDF is available at:

<http://www.wisconsinsfuture.org/publications/education/Adequacy.pdf>

Second: In my presentation, I strongly distinguished between short-term 'Stop the Bleeding' measures and long-term structural reform. For the short-term, I cited increased funding for several categoricals. And I was asked to be very specific on dollar amounts. In Chart I [next page] are recommendations for the coming budget biennium. These are based on the Wisconsin Adequacy Plan (Wisconsin Alliance for Excellent Schools 2004), summarized at:

<http://www.excellentschools.org/resources/WAPMay04.pdf>

Third: I was asked about revenue sources for increased funding of categoricals. In Chart II [next page] are several approaches.

Best wishes for your continuing work.

[continued]

CHART I: RECOMMENDATIONS FOR CATEGORICALS

[in \$millions]

	FY07 actual	FY08 DPI	FY09 DPI	FY08 IWF	FY09 IWF
Transportation	\$27.3	\$27.3	\$27.3	\$47.9	\$49.8
Bilingual	\$9.9	\$10.9	\$18.1	\$36.4	\$37.9
Special Ed	\$332.8	\$357.8	\$382.8	\$440.3	\$458.4
SAGE Plus*	\$98.6	\$109.0	\$109.5	\$186.3	\$194.0
Sparsity**	\$0	\$0	\$26.5	\$0**	\$26.5**
Total	\$468.5	\$505.0	\$564.1	\$711.0	\$766.6
Increase over '07	--	\$36.4	\$95.6	\$242.5	\$298.1

***SAGE Plus:** Our proposal would fund SAGE along DPI's lines, but then include additional funding of \$300/year, in all districts, for all subsidized-lunch students K-12.

****Sparsity:** For long-term structural reform, we'd prefer a different approach to sparsity, using weighted membership for small rural districts. But for the short term, we use DPI's proposal.

CHART II: SOME POSSIBLE FUNDING SOURCES

The recommendations in Chart I need about \$250 million for FY08 and \$300 million for FY09 above FY07. This can be done in many ways. Here are four options:

Option A. Increase general sales tax rate from 5.0% to 5.3%.

Raises \$261 million in FY07 [Legislative Fiscal Bureau, January 2006 *Revenue Estimate*]

Option B. Increase income taxes on top 6% of earners (taxable income above \$120,000).

A 12% increase in net income tax for this group would generate over \$250 million in FY07. This high-income group (top 6% among all taxpayers) would see its net tax go from about 5.7% of taxable income to about 6.4%. [Extrapolated from Legislative Fiscal Bureau's 2005 Informational Paper 2, *Individual Income Tax*]

Option C. Charge sales tax on a few service industries, choosing among options such as lawyers, accountants, computer consultants, public relations and credit agencies.

In FY04, \$250 million would have been generated by ending sales tax exemptions on various combinations of service industries, such as:

- Legal services and computer services;
- Or, accounting, management consulting, public relations and janitor services;
- Or, advertising, architects, engineers and accountants.
- Etc. [see Department of Revenue, *Summary of Tax Exemption Devices* 2005]

Option D. Combine versions of the above, such as:

- Increase the general sales tax from 5.0% to 5.1%;
- And, increase taxes on those with taxable income above \$120,000 by 4%;
- And, a sales tax on management consulting, public relations and janitor services.