

# Funding Public Education in Wisconsin: The Property Tax-School Funding Dilemma

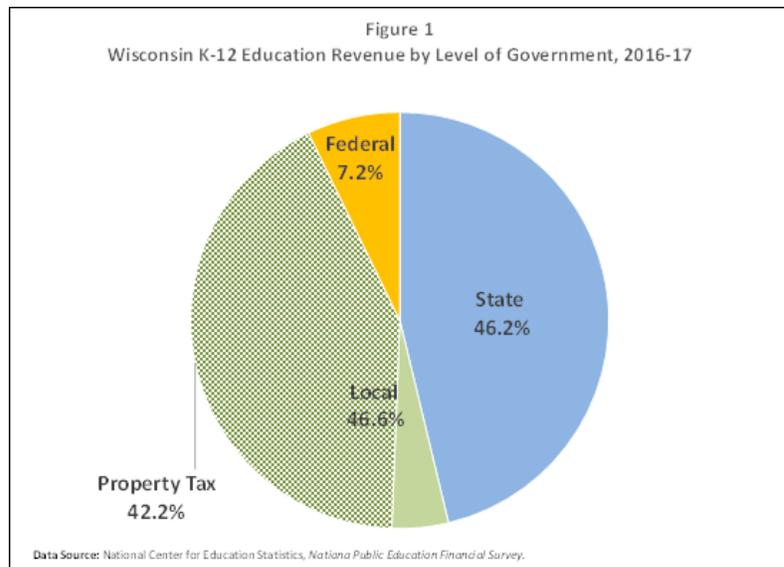
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## Introduction

For at least the past 30 years, legislative debates about public school funding have been animated by two competing goals: assuring that all schools have sufficient revenues to provide students with a high-quality education and reducing school property taxes. Despite some successes in improving educational quality and in reducing school property taxes, improvements in student academic achievement have stagnated, racial gaps in educational performance are extraordinarily large, and the share of public school revenues coming from the property tax remains above the national average.

This paper traces the development of school finance policies in Wisconsin and highlights poorly designed state aid policies and the reliance on untargeted property tax relief measures as among the chief reasons why Wisconsin has failed to solve its property tax-school funding dilemma.

The primary responsibility for providing public education in Wisconsin rests with its 421 independent school districts. As shown in Figure 1, in fiscal year 2017, revenues to fund public education are more or less evenly split between the state government and local school districts, with over 90 percent of locally-raised revenues coming from the property tax. Although 13 states rely more heavily on the property tax to fund their schools than Wisconsin, at 42.2 percent, the share of total school revenue from the property tax in Wisconsin is 10 percentage points higher than the average property tax share across all states.



## A Long History of Cutting School Property Taxes

Although Wisconsin's 1848 constitution called for the establishment of school districts that "...shall be as nearly uniform as practicable....," it was not until 1949 that the Legislature established a system of state aid which, in addition to providing each school district with a per pupil grant, included a new grant that allocated more state funds to school districts with lower levels of per student property wealth. In 1973, in a major reform of its school funding system the legislature enacted a *power equalizing* state aid formula designed to reduce reliance on the property tax,

weaken the link between the size of a school district's per pupil property tax base and the resources it had available to support per pupil spending, and reduce differences across school districts in per pupil spending.

Although members of the legislature had anticipated that local school districts would use increased state aid to reduce property tax levies, during the 1980s and the early 1990s, both school property tax levies and per pupil spending grew rapidly. Between 1983 and 1993 school property tax levies grew in real (inflation-adjusted) terms at an average annual rate of 3.6 percent, and spending per pupil by 2.7 percent. As illustrated in Figure 2, by fiscal year 1993, property tax revenue accounted for 53.4 percent of the total revenues supporting public education in Wisconsin.

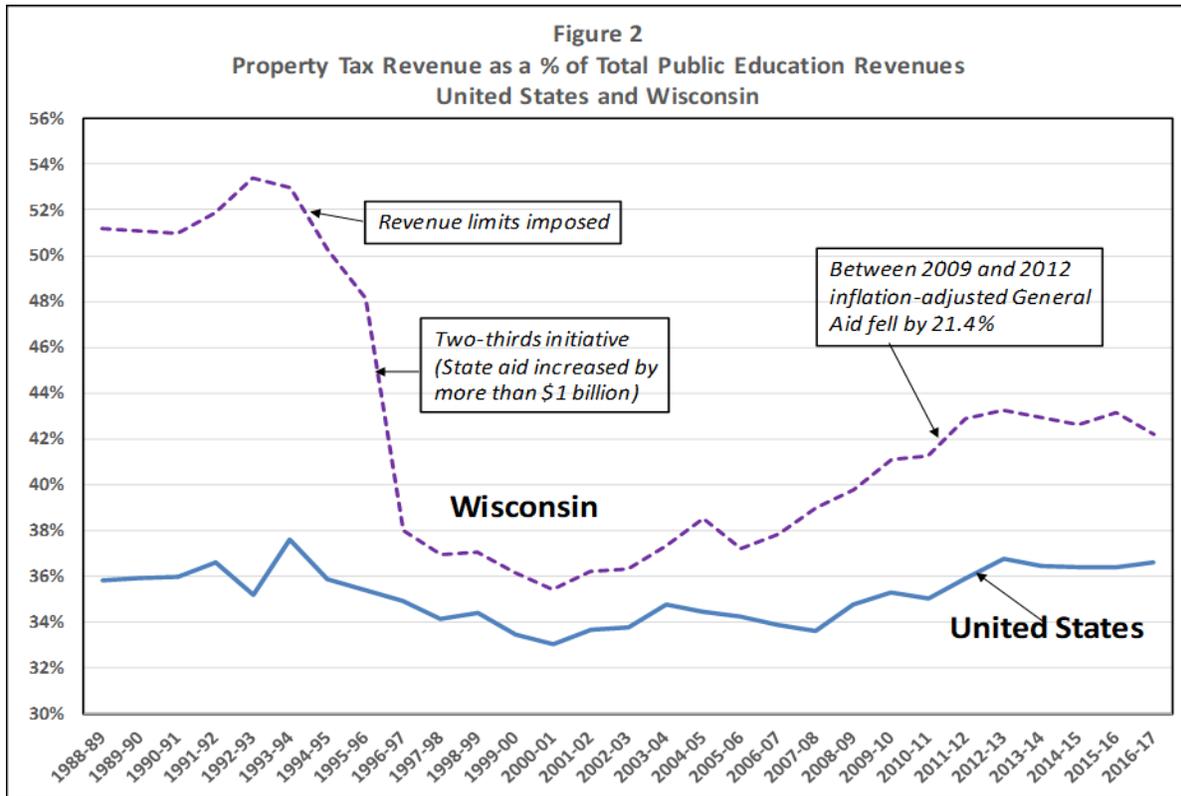
During the early 1990s, in response to rising school spending and the annual increases in school property taxes, the legislature took a series of actions designed to reduce school property taxes.

- Prior to 1993, salary and benefit disputes with teachers were resolved using mediation and binding arbitration. Because arbitrators often sided with teachers, the legislature acted to effectively cap increases in teacher compensation. Legislation was enacted that prohibited the use of mediation and arbitration as long as school districts offered teachers a *qualified economic offer* (QEO), which was defined as an annual increase in salary and benefits of at least 3.8 percent.
- To help enforce property tax reductions, starting in the 1993-94 school year, the legislature restricted the amount of money each school district could raise from the **sum** of its equalization aid allocation and property tax levy. The allowed annual per pupil increase in these *revenue limits* was initially set at \$190. For the following 15 years, this per pupil adjustment to the revenue limits increased at the rate of inflation. Revenues from categorical grants, such as those funding education programs for students with disabilities and revenues from federal grants are not subject to the revenue limit. Despite these exclusions, over 80 percent of total school district revenues, and hence spending, is subject to the revenue limit. The only way that a school district can increase revenues in excess of the annual revenue cap is through the approval of an “override” referendum by local voters.
- With the revenue limits in place, the legislature enacted a “two-thirds initiative,” which entailed a commitment by the state to fund “two-thirds” of the statewide cost of public education. Between 1995-96 and 1996-97, state aid to local school districts was increased by more than \$1 billion (33 percent). Although the statutory definition of two-thirds inflated the state's share of total revenue, over the next two years, the increase in state aid resulted in a 26 percent decline in the average school property tax rate in K-12 school districts.<sup>1</sup> The legislature's “two-thirds” commitment remained in place until 2003. Since then, each biennium the legislature determines the amount of state aid. Perhaps not surprisingly, since 2003, the state has failed to maintain its “two-thirds” commitment.

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<sup>1</sup> The statutory definition of “two-thirds” includes two property tax credits that flow directly to taxpayers in the numerator (part of state education support) and excludes the credits, and revenues from categorical and federal aid from the denominator (Wisconsin Legislative Fiscal Bureau, 2019b).

By 2000-01, the combined effect of the QEO, the revenue limit, and the “two-third” initiative had reduced the school property tax as a share of total education revenue to 35.4 percent (see Figure 2). While the property tax share of revenue remained 2.4 percentage points above the national figure in 2000-01, eight years earlier, the gap between Wisconsin and the U.S. was 18.2 percentage points.

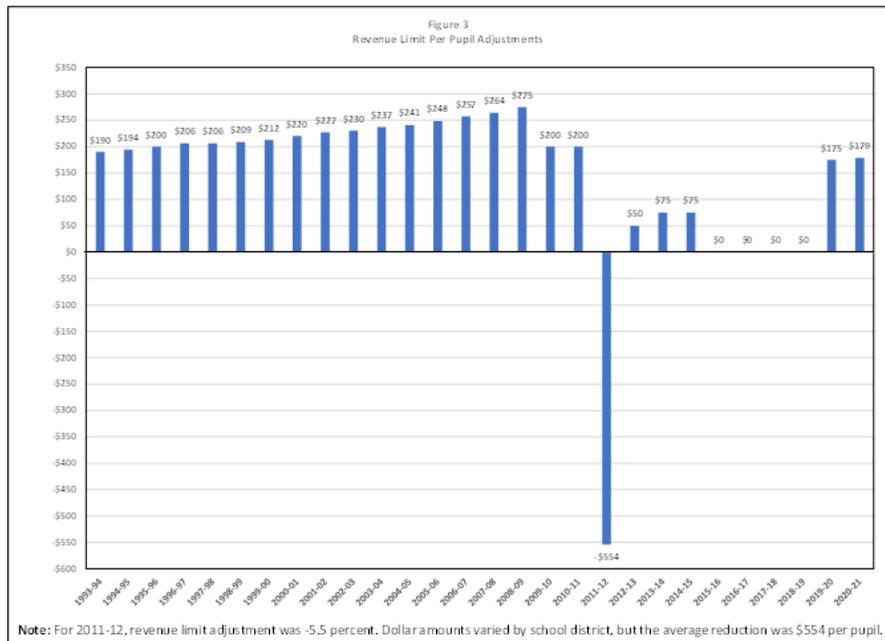


The allowable annual increases in revenue limits (referred to as the revenue limit adjustment) grew at approximately the rate of inflation between fiscal years 1994 and 2009. As shown in Figure 3, in the shadow of the Great Recession, the annual revenue cap was reduced to \$200 in each of the next two years. After a change of governors, the revenue cap was actually reduced in fiscal year 2012 by an average of \$554 per pupil.<sup>2</sup> In the following year, the revenue limit adjustment was set at \$50 per pupil. In fiscal years 2014 and 2015, the annual adjustment was \$75 and in the following four fiscal years revenue limits were frozen at their 2015 levels. The state’s 2019-2021 biennial budget set the annual revenue limit adjustments at \$175 and \$179.

To fully understand how revenue limits influence the role that the property tax plays in the funding of education, it is important to understand the interaction between annual changes in equalization aid and the annual adjustments in revenue limits. Because revenue limits are defined in terms of the sum of equalization aid and property taxes, whenever a school district’s per pupil aid is increased by more than the annual revenue limit adjustment, **every dollar of state aid above the limit must be offset by a dollar-for-dollar reduction in property tax levy.**

<sup>2</sup> The statutory language mandated a 5.5 percent reduction in each school district’s per pupil revenue limit (Wisconsin Legislative Fiscal Bureau, 2019a).

With the exception of 2005-06, in every year between 2001-02 and 2010-11, revenue limit adjustments were larger than per pupil increases in equalization aid. As a result, school districts were able to increase property tax funded spending. In 2005-06, however, the increase in per pupil equalization aid was substantially higher than the revenue limit adjustment and hence, school districts were required to reduce their property tax levies to stay under their revenue limits, resulting in a reduction in the share of education revenues from the property tax in that year (see figure 2).

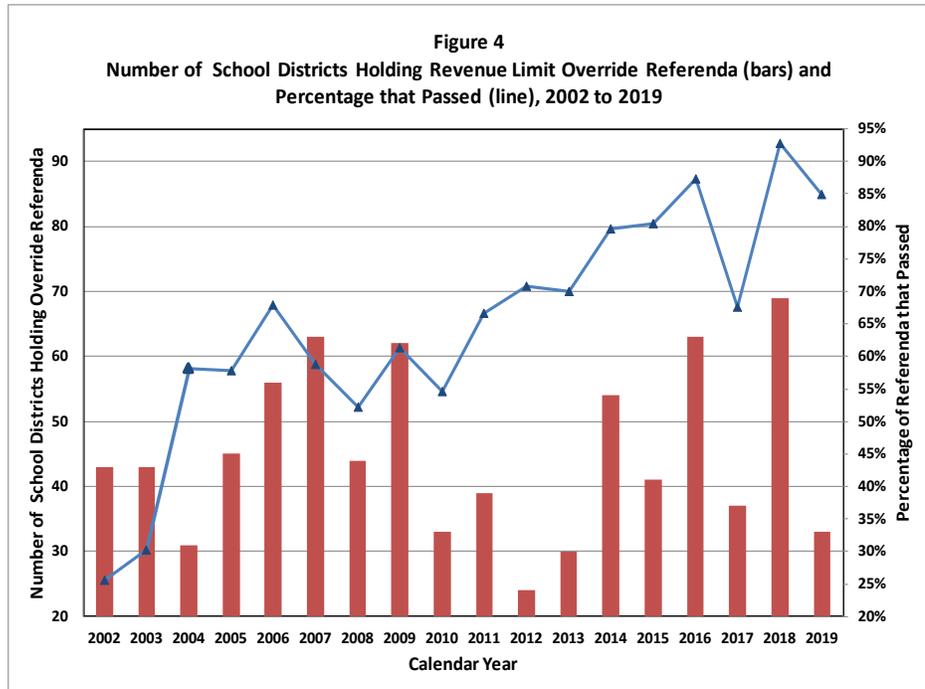


In early 2011, newly elected Governor Scott Walker introduced, and the legislature passed, Act 10. The legislation weakened the power of teacher unions and some other public sector unions by eliminating most of their collective bargaining rights, requiring annual union recertification votes, and prohibiting paycheck deductions for union dues. In addition, Act 10 reduced teacher compensation by requiring them to pay a larger share of the cost of their health care and pension benefits. The Governor justified a nearly 10 percent cut in equalization aid in the 2011-12 budget plus the negative revenue limit adjustment in the same year by arguing that Act 10 provided school districts with the “tools” they needed to cut spending.

Act 10 plus the near freezing of revenue limits over the next 6 years first stabilized and then reduced the role of the property tax in the funding of public education. In 2011-12 property tax revenues accounted for 42.9 percent of total K-12 revenues. By 2016-17 that figure was 42.0 percent (see Figure 2).

Revenue limits would have been even more effective in reducing property taxes if school districts did not have the option of holding referenda to override their revenue limits. School districts can propose “recurring” referenda, under which the revenue limit is permanently increased by a voter-approved dollar amount, or “non-recurring” referenda, which authorize specific dollar increases for one year or for a specified number of years.

Figure 4 presents data on the number of school districts that held one or more override referenda and on the percentage of school districts that were successful in overriding their revenue limits in the years between 2002 and 2019. The data show that as the per pupil revenue limits remained unchanged rising costs led an increasing number of school districts to hold referenda. The year with the highest number of school districts holding referenda was 2018, when 69 of the state’s 421 school districts attempted an override. The success rate reached an all-time high at 93 percent.



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Although in every year since 2004, more than half of the school districts holding referenda were successful, it is important to note that 121 school districts (29 percent) have not held a single override referendum. Another 92 districts (22 percent) only held one referendum in the years from 2002 through 2019 and only 27 percent of those referenda were successful. The data show no clear pattern that helps explain which districts are most likely to hold and to pass referenda. The probability of holding referenda is similar for very small school districts with under 500 students as it is for larger urban districts, and the probability of holding referenda are not much different for property poor and property wealthy school districts. Through 2019, seven of the nine districts with over 10,000 students have held at least one referendum. Milwaukee, by far the largest district in the state, held its first (successful) override referendum in April 2020.

### ***Most Property Tax Relief is Untargeted?***

Wisconsin provides property tax relief either by *targeting* property tax reductions to specific groups, such as homeowners, farmers, or low-income households, or by incentivizing or mandating that local governments, including school districts, reduce property tax rates. Lowering property tax rates provides equal percentage reductions in property tax liabilities to all owners of non-agricultural taxable property within a local jurisdiction. Because of a “uniformity clause” in the state constitution, a rate reduction generates equal *untargeted* property tax relief to homeowners, to owners of commercial-industrial property and to non-resident owners of vacation homes.<sup>3</sup>

<sup>3</sup> The uniformity clause mandates that within each local jurisdiction, the same property tax rate must apply to all types of property, with the exception of agricultural property, which is provided with preferential treatment through a constitutional amendment.

The primary way in which the school funding system provides untargeted property tax relief is by increasing general aid per pupil by an amount that is greater than the revenue limit adjustment. For example, in fiscal year 2017 the legislature increased general aid by \$108.3 million while not allowing any revenue limit increases. In that year 264 of the state’s school districts received a total of \$154 million more in equalization aid than they had received in the previous year. Given that the revenue caps remained unchanged, most of these districts were forced to reduce their property tax rates so that they would remain under their revenue limits.<sup>4</sup>

Over the years, the legislature has enacted a number of property tax credits. These credits either appear on taxpayers’ property tax bills or take the form of an income tax credit. Table 1 lists these credits and provides information on the annual amount of property tax relief provided by each credit in fiscal year 2018.

Wisconsin taxpayers are eligible for two *untargeted* property tax credits—the School Levy Credit, and the First Dollar Credit. Although state expenditures on these credits are included in the statutory definition of “state support” for education, neither credit provides school districts with any additional financial support for education.

The School Levy Credit was created in fiscal year 1986 and from then through 2006, the credit was budgeted at \$469.3 million per year. Since then annual funding for the credit has doubled to \$940 million. In contrast, between fiscal years 2006 and 2018, total direct state aid to school districts, general and categorical aids, increased by only 13.7 percent. The First Dollar Credit dates from 2008. Since 2010 it has been budgeted at \$150 million per year.

**Table 1**  
**Wisconsin’s Property Tax Credits**  
Fiscal Year 2018 Budgeted Amounts

Name	Type of Credit	Budgeted Amounts (in millions of dollars)
<b>Untargeted Credits</b>		
School Levy Credit	Reduces property tax rates	\$940.0
First Dollar Credit	On property tax bills	\$150.0
<b>Targeted Credits</b>		
Lottery and Gaming Credit	On property tax bills	\$171.0
School Property Tax/Rent Credit	Non-refundable income tax credit	\$483.7
Homestead Tax Credit	Refundable income tax credit	\$80.2
Veterans and Surviving Spouses Credit	Refundable income tax credit	\$29.8
Farmland Preservation Credit	Refundable income tax credit	\$16.3

Source: Wisconsin Department of Revenue, various reports. Available at <https://www.revenue.wi.gov/Pages/Report/Home.aspx>

<sup>4</sup> Given the many years of low or zero revenue limit adjustments, it is not surprising that most school districts are constrained by their revenue limit. In fiscal year 2019, school district revenues were within one percent of their revenue limit in all but 26 school districts. While some of those districts may not have been forced to reduce their property tax levy, it is likely that they chose to use some of any increase in state aid to reduce property taxes.

The annual budgeted amount of the School Levy Credit is allocated among all *municipal* governments in the state in proportion to each local government's school property tax levy. Each municipal government's allocation is then divided among all property owners in proportion to the assessed value of their property by reducing the school property tax rate. The state government then reimburses local school districts for their reduced property tax revenues. In an analysis of the School Levy Credit, Reschovsky (2010) estimated that only 51 percent of the credit was used to reduce the property taxes of Wisconsin homeowners on their primary residences. The remaining credits went to the owners of commercial-industrial property, farmland, the owners of residential rental property, and to both Wisconsin and out-of-state owners of vacation properties.

Each improved parcel of real estate in Wisconsin is entitled to a First Dollar Credit.<sup>5</sup> The credit, which appears as a separate line item on each property tax bill, is calculated by multiplying the school district property tax rate by a *credit value*. In fiscal year 2019 the credit value was \$7,100 and the average credit was \$66. Each year, the credit value is calculated so that the resulting credits will not exceed the amount appropriated by the legislature (\$150 million in 2019).

Wisconsin provides additional property tax relief through three *targeted* tax credits. The Lottery and Gaming Tax Credit provides property tax relief to homeowners on their primary residences.<sup>6</sup> Funded by a share of the proceeds of the state-operated lottery, the credit appears directly on eligible taxpayers' property tax bill. The credit is calculated by multiplying each homeowners' school property tax rate by a *lottery credit value*, which is determined each year by the funding available from the lottery proceeds. In fiscal year 2019, the credit value was \$17,000 and the average credit was \$116.

The other two targeted property tax relief measures are paid as income tax credits.<sup>7</sup> The School Property Tax/Rent Credit is a non-refundable credit that is equal to 12 percent of the first \$2,500 in property taxes paid on a principal residence. Renters are also eligible for a credit. By statute, 25 percent of their rent (20 percent if heat is included in their rent) is considered to be a property tax payment. The Homestead Credit is a refundable "circuit breaker" that provides tax relief to low-income homeowners and renters facing high property tax liabilities relative to their incomes. Only taxpayers with incomes below \$24,680 (including income from non-taxable sources such as Social Security payments) are eligible for the credit.<sup>8</sup> The maximum credit is \$1,168.

Political pressure to reduce property taxes comes primarily from homeowners. It is thus important to explore the cumulative impact of the state's property tax relief efforts on the property tax burdens on Wisconsin's homeowners. One way to measure the burden of the property tax on homeowners is to use data from the U.S. Census Bureau's *American Community Surveys* to calculate the ratio of the median property tax paid by homeowners to the median household income of homeowners. These data, which are available from 2010 through 2018, show that for the

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<sup>5</sup> Unimproved parcels, usually land with no buildings, are ineligible for the credit.

<sup>6</sup> In 1999, a constitutional amendment was approved that exempted the payment of targeted lottery credits from the constitution's uniformity clause.

<sup>7</sup> There are two additional refundable property tax related income tax credits, a credit for disabled veterans and surviving spouses, and a farmland preservation credit. These tax credits were utilized by relatively few taxpayers; in 2018 by 10,006 and 11,622 taxpayers, respectively.

<sup>8</sup> Taxpayers below the age of 62 must have earned income in order qualify for the Homestead Credit.

United States as a whole, the property tax burden remained unchanged at 3.2 percent.<sup>9</sup> While property tax burdens in Wisconsin are substantially higher than the national average, they fell from 5.0 percent in 2010 to 4.3 percent in 2018. Given the state's long-standing effort to reduce school property taxes, it is perhaps surprising that the tax burden on the median income homeowner remains so much higher (by 34 percent) than the U.S. average burden. The main reason is that policymakers in Wisconsin have chosen to distribute a substantial amount of property tax relief in an untargeted manner.

### ***State Aid Formulas Fail to Address Persistent Educational Achievement Gaps***

The goal of any public education system is to assure a quality education to every student. The U.S. Department of Education's National Assessment of Education Progress (NAEP) provides the only available means of comparing student academic performance across states. On average, Wisconsin students perform at about the national average level on the 4<sup>th</sup> grade mathematics and reading exams. On both the 8<sup>th</sup> grade mathematics and reading exams, however, the average performance of Wisconsin students is above the national average.

The NAEP results are much more troubling when one looks at the achievement gaps between white and Black students. In 2019, the average score of white students on both the 4<sup>th</sup> grade and 8<sup>th</sup> grade reading tests was 39 points higher than the average scores of Black students.<sup>10</sup> The gap in scores between white and Black students on the mathematics tests was 37 and 47 points on the 4<sup>th</sup> and 8<sup>th</sup> grade tests, respectively. All of these achievement gaps are larger than the white-Black gaps in any other state; only the District of Columbia has larger gaps. Despite recent policy initiatives designed to reduce the racial achievement gap, the gaps reported in the 2019 NAEP are actually larger than the gaps in the 2011 NAEP.<sup>11</sup>

Although the explanations for the persistent racial and economic achievement gaps are complex, one contributing factor is the way the state has chosen to finance public education. The core problem with Wisconsin's school funding system is that it largely fails to take account of differences across school districts in the amount of money per student needed to meet state-imposed standards for a high-quality education.

There is a substantial body of research that documents a set of reasons why some school districts require additional resources to achieve any specific educational goal. For example, more resources are needed to achieve improvements in academic performance of students from poor families, students in single-parent households, students with disabilities, and students entering school with limited English proficiency (Downes and Pogue, 1994; Duncombe and Yinger, 2005; Imazeki and Reschovsky, 2006). In Wisconsin, 108 of the state's 421 school districts have fewer than 500 students. There is evidence that small school districts cannot take advantage of economies of scale, and thus must spend more per student to provide quality education. Finally,

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<sup>9</sup> This burden measure is based on all property tax payments of homeowners. For the country as a whole, fiscal year 2017 school property tax revenues accounted for 51 percent of total property tax revenues.

<sup>10</sup> All student performance data come from the interactive program available as part of the U.S. Department of Education, *The Nation's Report Card* website at [www.nationsreportcard.gov/](http://www.nationsreportcard.gov/).

<sup>11</sup> There are also achievement gaps based on family economic condition (as measured by eligibility for the National School Lunch Program). In Wisconsin, the 2019 economic achievement gaps for both 4<sup>th</sup> and 8<sup>th</sup> grade reading and mathematics are all slightly larger than the national averages.

school districts located in parts of the state with high costs of living, due primarily to high housing costs, must pay higher than average salaries to attract high-quality educators.

In fiscal year 2020, state aid to local school districts totaled \$6.1 billion. Nearly 80 percent of that amount is allocated through the state’s general equalization aid formula. This highly complex three-tier formula is designed to reduce the link between school district per student property values and the amount of money they have available to fund education. The formula also works to encourage property-poor districts to increase per pupil spending and discourage property-rich districts from increasing their spending. Equalization aid is distributed through a *foundation aid* formula supplemented by a *guaranteed tax base* formula. The formula reduces aid to many school districts with above average per pupil property wealth that chose to increase education spending.

Research by Odden and Picus (2014) found that Wisconsin did a better job than most states in reducing the link between per pupil property wealth and school district revenue. Despite this fact, the formula takes absolutely no account of the factors listed above that are important in determining the per pupil resource needs of school districts. The equalization aid formulas used in most other states account for factors such as poverty and student disabilities using a system of student weights. For example, for purposes of the allocation of aid, each student from a poor family may count as 1.2 students and each student with a disability may count as 1.75 students. In this way, school districts with a high proportion of students from low-income families or with disabilities receive additional amounts of state aid.

**Table 2**  
**Budgeted School Aids by Type, Fiscal Year 2020**  
**Average Annual Rate of Change, Fiscal Years 2011 to 2020**

	Budgeted Amounts	Average Annual Rate of Change
<b>General Aid</b>		
Equalization Aid	\$4,740,048,000	0.2%
High Poverty Aid	\$16,830,000	-1.2%
<b>Per Pupil Aid</b>	<b>\$621,924,800</b>	<b>46.7%</b>
<b>Categorical Aid (excl. per pupil aid)</b>		
Regular and High Cost Special Education	\$459,630,000	0.6%
SAGE/Achievement Gap Reduction	\$109,184,500	0.0%
English Language Learners	\$8,589,800	-1.2%
Pupil Transportation Aid	\$24,000,000	-1.0%
Sparsity Aid	\$24,713,900	5.7%
All Other Categorical Aid	\$133,595,300	1.1%
<b>Total Categorical</b>	<b>\$693,909,600</b>	<b>0.7%</b>
<b>Total State Aid</b>	<b>\$6,072,712,400</b>	<b>1.5%</b>
<b>Addendum:</b>		
School Levy & 1st Dollar Credits	\$1,090,000,000	2.2%

An alternative way for providing additional funding to school districts that require extra resources is through the use of categorical grants designated for specific purposes. Wisconsin allocates state aid through more than 30 separate categorical aid programs. Significantly, revenue from categorical aid programs is outside of the revenue limits, and thus can be used to finance additional spending. Table 2 lists the budgeted fiscal year 2020 spending on Wisconsin’s major grants programs and indicates the average annual rate of growth of these grant programs in the period from fiscal year 2011 through 2020.

The state's main grant program, equalization aid, grew very slowly--an average annual rate of 0.2 percent--over this period. A relatively small aid allocation is provided by the High Poverty Aid program, which targets aid to school districts in which over half of the students are eligible for free or reduced-price lunches through the federal National School Lunch Program. Because this program is considered General Aid, the aid is subject to the revenue limits. Thus, the effect of this aid program is to reduce property tax levies in eligible school districts rather than providing them with additional educational resources.

The only categorical aid program targeted to students from low-income families is the Achievement Gap Reduction program (formerly known as SAGE). This categorical grant funds special programs and smaller class sizes in school districts with concentrations of low-income students but is restricted to educational initiatives occurring in kindergarten through third grade. Funding for this program has remained unchanged since fiscal year 2011. During this same period, the share of total public school students from poor families (as measured by eligibility for free and reduced-price lunch) rose from 41.4 to 46.5 percent.

Two thirds of all categorical aid is for special education. The aid partially reimburses school districts for spending on federally-mandated programs for students with a wide range of disabilities. In school year 2017-18, 13.8 percent of all Wisconsin students received special education services, with the share of school districts' special education enrollment ranging from 6 to 26 percent. Although the number of students receiving special education services slightly declined over the past decade, total school district spending on special education continued to grow. Despite increases in the costs of special education, categorical aid for special education hardly changed during this period, with almost all the growth occurring between 2019 and 2020.

In 2002, a third of special education spending was reimbursed by state categorical aid. Since then, however, the state's contribution has been declining. In 2020, state aid only covered about a quarter of the total costs of special education. In addition to state aid, all school districts also receive federal grants in support of special education through the federal Individuals with Disabilities Education Act (IDEA). According to an analysis of data from the 2015-16 school year conducted by the Wisconsin Legislative Fiscal Bureau, state and federal aid only covered about 37 percent of the total \$1.6 billion that school districts spent on providing special education services (Pugh, 2018). The result was that over \$1 billion of special education costs had to be funded out of general school district revenues. As a consequence, school districts, especially those with a high proportion of students with disabilities, are forced to reduce course offerings, increase class sizes, or take other steps to reduce spending on their core educational programs.

By far the most significant change in the state's school funding policy since 2011 was the establishment of a per pupil aid program in fiscal year 2013. Per pupil aid is outside of the revenue limit and by definition its distribution is unrelated to the property wealth of school districts or to the range of factors, such as poverty, cost of living, or school district size, that reflect the expenditure needs of school districts. The funding for the per capita aid program has grown extremely rapidly—at an annual rate of nearly 47 percent since 2013. While the increase in per pupil aid provided school districts with needed revenue, the fact that it is completely untargeted means that it counteracts the positive tax-base equalization effects of general aid and does little to address Wisconsin's racial and economic achievement gaps.

## ***Policy Recommendations***

Over the past three decades, the Wisconsin legislature has implemented a set of policies designed to adequately and equitably fund public education while at the same time reducing the role that the property plays in school finance. The imposition of strict revenue limits and the expansion of property tax credits have been successful in reducing the share of total school revenues coming from the property tax from 53.4 percent in the 1992-93 school year to 42.2 percent in 2016-17. Despite this reduction, a larger share of education funding comes from the property tax in Wisconsin than in the average state.

In terms of the quality of public education, the evidence is decidedly mixed. Wisconsin students performed at the national average on the 4<sup>th</sup> and 8<sup>th</sup> grade reading exams that are part of the National Assessment of Educational Progress (NAEP) and above average on the NAEP math tests. However, between 2011 and 2019, average NAEP scores of Wisconsin students have not improved, and in fact have declined on the 4<sup>th</sup> grade mathematics test. Furthermore, the achievement gaps between Black and white students are larger than the gaps in any other state, and the gaps have grown since 2011.

Although over the past decade the legislature has tweaked the school funding system in efforts to improve school funding equity and fairness, only a major reform will address the systemic problems discussed in this paper. There are five major elements to my proposal:

- Eliminate the school revenue limits.
- Provide meaningful, targeted property tax relief to homeowners and renters through expansion of the state's Homestead Credit.
- Eliminate the School Levy Credit.
- Replace the current three-tier equalization aid formula with a new weighted-pupil *foundation* formula.
- Place limits on the ability of local school districts to increase school property tax rates in support of spending above the foundation level.

The revenue limit is a crude mechanism designed to provide untargeted property tax relief. It diminishes the ability of local school boards to improve the quality of education for their students. In years, when the annual adjustment to the revenue limit is below the rate of inflation, both rich and poor school districts are forced to make programmatic cuts, often in the form of fewer classes or increased class sizes.

A major political and economic impetus for reducing property taxes is to provide tax relief for Wisconsin residents who face large property tax bills relative to their incomes. By forcing local governments to lower property tax rates, both the revenue limits and the School Levy Credit provide relief to all taxpayers in proportion to the assessed value of their property. As a result, a large share of property tax relief is provided to businesses and out-of-state residents, leaving relatively modest tax relief to Wisconsin residents facing high property tax burdens. Increasing funding and expanding eligibility for the state's Homestead Credit would enable the state to target property tax relief to those Wisconsin residence in the most need of fiscal relief.

The largest portion of state aid to school districts, Equalization Aid, is allocated using an extremely complex formula. Aside from its complexity, the formula completely fails to account for factors, largely outside the control of local school districts, that raise the cost of providing education in some school districts. There is little question that additional resources are needed to provide quality education for students with special needs and from economically disadvantaged families, and for students living in small rural school districts. Although the state has provided school districts with categorical aid to address these special needs, the aid amounts have been inadequate and have rarely been adjusted for ongoing cost increases.

Although the detailed design of a new equalization aid formula is beyond the scope of this paper, the state should follow the lead of most states, and adopt a *foundation aid* formula that accounts for both differences in per pupil property wealth and, through the use of weighted-pupils or other mechanisms, differences in various factors that influence the costs of providing education. Although school districts should have the freedom to raise per pupil spending above the foundation level, the state should consider placing a ceiling on this property-tax funded supplemental spending as a means of restraining inequities in per pupil spending across school districts.

The economic, fiscal, and health implications of the Covid-19 pandemic create a new set of challenges for the funding of public education in Wisconsin. The need to effectively use limited state resources has never been more important. It is thus an opportune time to reform the way in which the state provides property tax relief and to reform the system of state aid for education so that it results in high quality education for all Wisconsin students.

It is inevitable that any reform of the state's system of school finance will lead to the redistribution of resources among school districts. Adjusting to changes in resources while maintaining or improving educational quality will be challenging. The experience of other states suggests that any reforms need to be carefully designed and any changes in school resources and in school property tax bills need to be phased in over several years.

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