Table of Contents

Executive Summary .................................................. 1

The Current Funding System ................................. 2

Equity under the Current Funding Formula ............... 7

Fixing the Formula ............................................. 10

Conclusion ....................................................... 15

References ...................................................... 16
Executive Summary

It has often been said that school finance in Wisconsin is so complicated that only a handful of people can fully understand it. As educating the next generation is one of the most important priorities for our state and nation, this is especially problematic. In this report, we work to explain the current funding system in as straightforward a manner as possible. We then explain the problems with the current system and propose a new system based on Weighted Student Funding that would help to insure that every child in the state is treated fairly regardless of their ZIP code or school choice.

KEY TAKEAWAYS:

1. **Funding is a combination of state, local and federal aid.** The average school district in Wisconsin receives about 48% of aid comes from the state, 41% from localities, and 7% from the federal government.

2. **Revenue limits are antiquated.** While funding for districts across the board has increased over time, the revenue in each district is tied to an original revenue limit set during the 1993-1994 school year, more than 25 years ago. As a result, funding gaps that existed then have not closed.

3. **Huge funding disparities exist.** Public school funding ranges from as low as $9,400 to as high as $21,000. Students in private school choice and charter programs are funded even less than the lowest funded district.

4. **Weighted student funding is the path forward.** Weighted student funding provides the same level of funding for each student regardless of sector, or home district. The “weights” provide extra revenue based on student characteristics that historically have made education more challenging.
The Current Funding System
WHERE DOES THE MONEY COME FROM?

Schools in Wisconsin are currently funded through a relatively complex combination of federal aid, state aid, and local aid through property taxes. On average throughout the state, about 45% of revenue comes from the state and about 43% comes from local property taxes. A remaining 7% of funding comes from the federal government, while about 4% is other local revenue*. Figure 1 below depicts this information visually.

Figure 1. Average Distribution of Revenue by Source, Wisconsin 2019

Other Local 4%
Property Taxes 41%
State Aid 48%
Federal Aid 7%

Table 1. State Guaranteed Value per Member at Each Tier

<table>
<thead>
<tr>
<th>Funding Tier</th>
<th>Guaranteed Value Per Member</th>
<th>Tier Ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>$2,000,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Secondary</td>
<td>$800,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>Tertiary</td>
<td>$400,000</td>
<td>Rev. Limit -$9,000</td>
</tr>
</tbody>
</table>

For example, consider a district where the property value per member is $500,000. Because the state guarantees $2,000,000 at the primary tier, the state would be required to pay 75% of the costs of each student up to the primary cost ceiling of $1,000:

\[
\text{State Contribution Primary Tier} = \frac{($2,000,000 - $500,000)}{2,000,000} \times 1,000 = \frac{1,500,000}{2,000,000} \times 1,000 = 750
\]

EQUALIZATION AID FORMULA

The goal of the equalization formula is to (appropriately enough) equalize funding for students across the state regardless of the property wealth of the district. The primary source of school funding in the state is through the equalization aid formula. The total taxable property in each district is divided by the number of students enrolled in the district to arrive at a property value per member. The equalization aid formula is three tiered, with state-guaranteed levels of funding within each tier. If property tax revenues are insufficient at any tier to reach the guaranteed threshold, the state makes up the difference.

* This revenue consists primarily of fees and interest on investments.
The district would pay the remaining $250. At the secondary tier, the calculation works the same way, but the state is responsible for a smaller share because only $800,000 per member is guaranteed:

\[
\text{State Contribution Secondary Tier} = \frac{(800,000-500,000)}{800,000} \times 7,000 = 2,625
\]

Here, the state would contribute $2,625 and the district would contribute $4,375.

At the tertiary tier, a district’s revenue limit comes into play. Revenue limits were initially set in statute for the 1993-94 school year. Revenue limits have increased over time based on enrollment changes, inflation as well as the legislative, budget processes and referendums. However, districts are still effectively “locked in” to their initial spending levels set when the limits were first implemented. Spending increases are uniform across districts, meaning that gaps do not close even when all districts get additional revenue. The average revenue limit for the state was $10,677 during the 2019-20 school year. The state and district fund up to the revenue limit in each district within the tertiary tier.

Our hypothetical district has a higher “value per member” than the state guarantee, and thus the district would be required to provide all of the funding at the tertiary tier up to its revenue limit. Note that districts are allowed to spend less than the revenue limit, but very rarely do.

**FUNDING DISPARITIES BETWEEN DISTRICTS**

This formula results in extensive variation in the level of state aid between districts based primarily on whether a district is wealthy in terms of property. Wealthier districts see a smaller share of their total revenue per member covered by the state. For example, consider the Lake Geneva School District, depicted in the Figure 2 below. Local taxpayers in Lake Geneva provide approximately 65.5% of the revenue to local school districts in this district compared to about 47% statewide. A few small, property-rich districts may receive no state aid at all. Because such districts tend to be rural, low-income areas with a number of vacation homes, this causes consternation on the part of rural residents, who see relatively high property taxes.

![Figure 2. Distribution of Spending by Source, Lake Geneva 2019](image)
CATEGORICAL AIDS

The state provides funds outside of the equalization aid system in a number of different ways. Many of these are sum-certain appropriations, meaning that a particular pot of money is set aside by the legislature which is then divided among eligible districts based on enrollment. Some of the more important categorical aids include “sparsity aid,” which provides $400 per student to rural school districts with fewer than 745 students and less than 10 students per square mile. This aid is in recognition of the difficult task for such districts to create economies of scale and potentially large transportation costs over a wide area. Other categorical aids include transportation aid, special education aid, and library aid.†

An increasingly important source of state aid outside of the revenue limits is known as “per pupil aid.” Per pupil aid is a flat amount of aid provided to every school district regardless of its demographic composition or property wealth. It was pursued, in general, as an alternative to putting additional funding through the funding formula. During the 2016-17 school year, per-pupil aid was $250 per student in the district under the district’s three year rolling enrollment average. This increased to $450 per student for the 2017-18 school year, $654 in 2018-19 and made one final statutory increase to $742 per

† Other forms of categorical aid are aid to high poverty districts, high cost pupil transportation aid, sparsity aid, aid for the transportation of students over ice, state tuition. A description of each form can be found here: https://dpi.wi.gov/sfs/aid/categorical/overview
pupil in 2019-20 where it will remain unless further changes are by the legislature. (Johnson 2017). While this funding increases revenue for all districts, it does nothing to close the gaps that exist under the funding formula.

Over time, we have seen the state move away from putting money into the funding formula and putting more money into categorical aids. The figure below shows the share of state funding that goes through the formula versus being distributed in categorical aids beginning with the 1999-00 school year. In 1999, about 87% of school funding went through the formula. By the 2018-19 school year, that share had dropped to 78%. Categorical aids have risen from 10.8% to 20.8% over the same time frame (Pugh 2019a).‡ Because equalization aid generally works to (appropriately enough) equalize spending across districts, additional funding through categorical aids can sometimes have the opposite effect, though the exact effect depends on the aid category.

**MONEY DOES NOT FOLLOW THE KID**

The current funding system utilizes an archaic three-year rolling average of enrollment in order to determine funding for each district. Students who are enrolled in a particular district on the count date are added to the district’s revenue limit formula for the next year. However, a student that is newly enrolled in school only counts for 1/3 of a full time equivalent (FTE) student for their first year, and 2/3 in their second year (Ford 2013), finally representing a complete FTE student in their third year of enrollment. When district enrollment is relatively stable, this is not especially problematic. It can also ease the transition to reduced enrollment in districts that are losing population.

Where things get increasingly complex is when it comes to students who leave the district for the Racine (RPCP) and Wisconsin Parental Choice Programs (WPCP). Even though districts are no longer educating these students, they receive an adjustment to their revenue limit for students in the WPCP and RPCP. This allows districts to increase their property tax revenue to make up for students they lose to choice. This allows them to maintain the same amount of total revenue (Pugh 2021), but has the perverse effect of leaving them with more revenue per each remaining student in the district (Flanders 2017).

‡ A small share of revenue is categorized by the LFB as “Other General Aids.” This includes Integration Aid and High Poverty Aid. This revenue is accounted for in the chart but not represented by its own line.
Equity Under the Current Funding Formula
TAX CREDITS

School Levy and First Dollar tax credits offset a portion of the property tax burden in municipalities throughout the state. The “school levy credit” is allocated to each municipality by the state based on its percentage of aggregate statewide school property taxes. Municipalities reduce the mill rate by a commiserate amount (Rechovsky 2010). The First Dollar credit is based on a calculation involving a credit based provided by the Department of Revenue multiplied by the school tax rate in each municipality. All property that has had improvements made to it is eligible for this credit (Ardon 2021).

For the 2018-19 school year, just over $1 billion was provided to municipalities under these two credits, reducing the net property tax burden by a commiserate amount (Kava and Pugh 2021). These credits have come under criticism for being an inefficient means of providing tax relief to property owners throughout the state. This is because the benefits tend to flow to the wealthiest home owners who often face below average property tax rates to begin with. Moreover, the existence of these credits may encourage municipalities to further raise property taxes (Rechovsky 2010).

THE QUESTION OF EQUALITY OF INPUTS VS. EQUALITY OF OUTPUTS

Increasingly in education policy debates, the argument has been made that simply achieving parity between the spending of wealthier and poorer districts is not sufficient. Because students from lower income districts and challenging backgrounds may start the school year further behind, more spending is needed in these districts to “catch them up.”

When it comes to providing more revenue for students in poverty, Wisconsin’s current formula
is middle-of-the-pack. The Education Trust, an organization with the goal of providing more funding for poor and minority students, conducted a study of state funding formulas in 2015 (Ushomirsky and Williams 2015). According to this research, Wisconsin ranks 15th out of the 50 states in terms of funding equity. Funding in school districts with the highest amounts of poverty is approximately 6% higher than for districts with the lowest poverty.

That said, substantial gaps remain in terms of raw dollars. The lowest funded district in the state, Grantsburg, gets $9,400 per student while the highest funded district, North Lakeland, has more than $21,287 per student (DPI 2019). Even within the same county, large disparities often exist. For instance, Oak Creek in Milwaukee County has $9,688 per student while Brown Deer in the same county has $12,053—a difference of $2,365.

REFERENDA

School districts may go to referenda to exceed their revenue limit. To reduce overuse, the state limited the number of chances a district has to go to a referendum to two times during the course of a calendar year. The passage rate of referenda has increased substantially in recent years. Figure 4 shows the passage rate of referenda throughout the state since 2001 and shows that rates hovered around 50% in the previous decade, but have steadily increased since the early 2010s.

HOW THE FUNDING FORMULA EFFECTS SCHOOL CHOICE, CHARTER AND OPEN ENROLLMENT

The current funding system for choice and charter schools exists outside the funding formula. Because the school funding does not follow the student in any sort of one-to-one fashion when they leave for private school choice programs, students in the WPCP and the RPCP are funded by the state. The amount of the voucher is set in state law. While a portion of the Milwaukee Parental Choice Program continues to be funded by local taxpayers, this amount is being reduced on an annual basis so that the program will be funded in the same manner as the other voucher programs in the state within five years. For the most recent school year, the voucher amount was $7,754 for students in Kindergarten through 8th grade, and $8,400 for students in high school (Pugh 2019). Given that the average funding for public school students for 2018-19 was $10,555 per student, this represents a substantial disparity.

Independent charter schools—those under the purview of the University of Wisconsin system or technical colleges—also have their payment amount set in state law. The amount for 2018-19 was $8,619 per student. Charter schools under the purview of school districts negotiate individual contracts with schools on the funding amount. Milwaukee Public Schools, home to the vast majority of non-instrumentality district charters, generally funds schools at an amount similar to independent charters.

Funding for students who open enroll into other districts is also provided for outside of the funding formula. For non-special needs students, the amount transferred to the receiving district was $7,379 per student. The home district keeps any remaining amount of state aid and any property tax revenue generated for that student as if the student was still enrolled.
Fixing the Formula
The current funding formula in Wisconsin is characterized by inequality across sectors and districts, with the value of a student changing depending on where they go to school. We propose a reform to the funding system that will create equitable funding no matter which school door a child walks into, and will begin the conversation about more fundamental reform to the system.

**MOVE TOWARDS A WEIGHTED-STUDENT FUNDING SYSTEM (WSF).**

WSF systems are based on the premise that students are worth the same amount of money regardless of the district in which they attend school. Funding schools based primarily on property wealth is an antiquated system in the 21st Century, where families and students are continually on the move between schools and districts. Such systems have received support across the political spectrum, from Governor Evers to the Reason Foundation. How would such a system work?

As described above, Wisconsin schools are currently funded based on a combination of state and local revenue. But even within a district, funding varies from school to school. The first step in making funding more equitable is to mandate the use of what is known as Weighted Student Funding (WSF) within Wisconsin’s school districts. One model for a system like this would allot districts a 5% administrative fee, with the remainder of the student spending following the student to their school of choice.

Common weighting adjustments under a WSF model include weights for the share of low-income students, English language learners (ELL), and the share of students with various disabilities (Department of Education 2019). Policymakers could craft a WSF system that works for Wisconsin, and require school districts to use it to distribute student spending.

### Table 2. NPS WSF Allocations

<table>
<thead>
<tr>
<th>Group</th>
<th>Elementary</th>
<th>Middle School</th>
<th>High School</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade Level</td>
<td>—</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Prior Academic Performance</td>
<td>—</td>
<td>.1</td>
<td>0.5</td>
</tr>
<tr>
<td>English Learners</td>
<td>.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty</td>
<td>0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Education</td>
<td>0.5-.75</td>
<td>(Depending on Student Need)</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Weighted Student Funding Year Book, Reason Foundation 2019*

In order for this system to be workable, the state’s choice and charter schools would necessarily need to be included, as the goal would be to create freedom for families to move to the school in their area that works best for them.

Table 2 is an example of how Nashville Public Schools in Tennessee allocate weights for their students.

Under such a system, money would follow the student if they changed schools or sectors within a school district. If a student with ELL status moves to a new school, that funding would follow the child during the subsequent payment cycle.

Wisconsin could go even further than most states and districts that have implemented WSF by including choice and charter schools in its revised funding formula. As mentioned above, choice and charter schools receive significantly less funding than even the lowest funded districts in the state.
WHAT ABOUT CATEGORICAL AIDS?

As more and more of the funding is brought into the funding formula, less and less will need to be included in the state’s categorical aid programs. For instance, the high-poverty aid program funds could now be distributed through the funding formula, as the formula would likely include weights for the number of low-income students in a district. Other categorical aids that are less likely to be included in the weighting formula—such as sparsity aid—might still need to exist. In general, the greater the share of total education spending that can be put through the WSF formula, the better.

WHAT WOULD CHANGE FOR DISTRICTS?

Under the proposal as currently structured, there would be little change to district-level funding. The equalization aid formula, with all of its structural challenges, is not touched with one exception: because the goal is a system in which money would more dynamically follow students wherever they choose to attend school, such a system should remove the three-year rolling average from aid calculations. Instead, funding should follow the student from school to school on an annual, or even more frequent, basis.

The only other change for districts would be if the institution of a system in which families are empowered to move between schools causes them to make alternative choices about where to send their kids. But this ought to be seen as a feature of the system rather than a problem: if families are making different choices, the school district ought to be incentivized to work harder to meet student needs.

What would change more fundamentally is how districts allocate their resources. Currently, most Wisconsin school districts spend more than the 5% suggested at the administrative level. The figure below is a pie chart reproduced from the Department of Public Instruction showing the average spending in a number of categories across school districts. While we might argue that more spending ought to be included in the category of ‘administrative,’ even the state concedes that spending currently greatly exceeds the threshold proposed.

This is part of a national trend that has seen spending on school bureaucracy far outpace growth in the number of students over the past fifty years. Implementing a system like this would require districts to trim the administrative fat, and ensure that education spending is actually reaching the kids that it is ostensibly spent to benefit.

Table 3 shows how spending would work for a hypothetical district with 100 kids funded at $10,000 per kid under three slightly different weighting systems. The district receives
approximately $1,000,000 for the year. After the 5% administrative fee, $950,000 is left to be distributed among the district’s students. Line 2 adjusts the weight for high school students to 0.3 rather than 0.5 as in line 1. Line 3 further adjusts the low income weight to 0.3.

The demographics of the district used in the calculation are for the average school district in the state using the latest data available from DPI. Using the weighting system in the table (borrowed from Nashville Public Schools with the exception of no weighting for prior academics), the baseline funding amount that every student would receive is $6,336. A student who was also in middle school would receive an additional weight of 0.1 on top of that, for a total of $6,969.60.

The current model allocates all but $12 of the district’s funds. The other two models add additional money to the baseline by working less funding through weights. If the high school weight is reduced to 0.3, this student has $6,613 at minimum. If we also reduce the income weight to 0.3, this student has $7,034.

**HOW MUCH WOULD IT COST?**

Here, we evaluate one potential model of implementing a WSF system within school districts. Open enrollment students are funded using the same methods as the current system, while voucher students are now funded using a similar pass through of funds with districts as the intermediary.

Because we are not proposing a fundamental change to the funding formula here, the only additional cost of this proposal would be in equalizing funding for choice and charter students. These students are currently funded at a significantly lower rate than public school students, though school districts in Wisconsin are generally allowed to increase property taxes for students they are no longer educating.

In 2019, the Legislative Fiscal Bureau provided estimates on the cost of eliminating the state’s voucher programs (MPCP, RPCP and WPCP). Because funding these schools at the same level of the school district would have a similar funding impact, we apply these estimates here. Additionally, we add the cost of equal funding for the state’s independent charter schools. Currently, most independent charter schools

### Table 3. Baseline Spending and Weights—Three Weighting Models

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Enrollment</th>
<th>MS Weight</th>
<th>HS Weight</th>
<th>ELL Weight</th>
<th>Income Weight</th>
<th>Special Needs Weight</th>
<th>Bucket</th>
<th>Less Admin Fee</th>
<th>Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,336</td>
<td>100</td>
<td>0.1</td>
<td>0.5</td>
<td>0.21</td>
<td>0.5</td>
<td>0.66</td>
<td>$1,000,000</td>
<td>$950,000</td>
<td>$949,988</td>
</tr>
<tr>
<td>$6,613</td>
<td>100</td>
<td>0.1</td>
<td>0.3</td>
<td>0.21</td>
<td>0.5</td>
<td>0.66</td>
<td>$1,000,000</td>
<td>$950,000</td>
<td>$949,991</td>
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<tr>
<td>$7,034</td>
<td>100</td>
<td>0.1</td>
<td>0.3</td>
<td>0.21</td>
<td>0.3</td>
<td>0.66</td>
<td>$1,000,000</td>
<td>$950,000</td>
<td>$949,977</td>
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<tr>
<td>Program</td>
<td>Number of Students</td>
<td>State &amp; Local Cost (Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>MPCP, RPCP, WPCP’</td>
<td>40,717</td>
<td>$107,600,000</td>
<td></td>
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<tr>
<td>Legacy Independent Charters</td>
<td>8,811</td>
<td>$31,529,550</td>
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<tr>
<td>OEO Independent Charters</td>
<td>315</td>
<td>$0</td>
<td></td>
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<tr>
<td>District Charters</td>
<td>35,377</td>
<td>$0</td>
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</tr>
<tr>
<td>Open Enrollment</td>
<td>62,962</td>
<td>$0</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

are funded by DPI and an aid deduction to all districts in the state. More recent charter schools authorized by the Office of Educational Opportunity are counted by their resident district and the district’s aid is reduced by the amount of the charter school payment. In the long run, it would be sensible to fund all independent charter school students in the manner of the more recent ones, but we’ll assume things stay as they are for this analysis. The table above estimates the cost in state and local funds from equalizing spending in each of these sectors.

The total cost of equalizing funding across sectors is approximately $137 million. Because district charters, the open enrollment program, and OEO charters result in a “skim” to the home school district, there is no additional cost from funding these schools equally. The increase in cost from legacy charters comes from the fact that these charters are funded by the state with an aid reduction to all districts. The cost here represents what it would cost to not further reduce school spending statewide--if those cuts are palatable, this line would also have no cost.

Wisconsin has made many attempts to reform its school funding system, with very limited success. What is proposed here is a modest step in reforming our approach to school district finance. Financing systems with origins in the 1800s were built at a time where families tended to be static, and options extremely limited. In the 21st Century, students and families are far more fluid—moving from district to district and between educational options. It is high time that our revenue system in the state reflect this reality.

Instead of tying state funding to antiquated concepts like ZIP code, we must allow our education dollars to follow students wherever they choose to attend school. There is a great deal of inertia tied to preserving the status quo, and understandably few want to upset the apple cart. But if the pandemic has shown us anything in education, it is that all families need to have access to educational options—from public schools to learning pods to homeschooling—and funding shouldn't be a barrier to access high quality education. The Weighted Student Funding system proposed here would move us closer to that goal. Transitioning will be a challenge, but the end result would revolutionize education in the state.
References


