

Research Brief

Attempted Tax Freeze Highlights Complexity of State/Local Control in Education Finance

Striking a proper balance between local and state control over education is complicated. Historically, education has been a primary function of local school districts. The 1990s changed that; now school districts participate in a give-and-take system of finance. Revenue limits are imposed on school districts with the primary purposes of limiting property tax increases and increasing equity in school spending. In turn, the state has agreed to fund two-thirds of school district costs. However, recognizing the tradition of local control, the law allows school districts to get around revenue limits if they pass a local referendum.

The recent state budget debate has focused both on the state's inability to continue financing two-thirds of school costs and officials' unwillingness to increase property taxes. Although the legislature's failed attempt to override the governor's veto of a property tax freeze intensified the debate, it left to a later date a conclusion over just how the state and local governments will share the responsibility of increasing education costs.

Until that happens, school districts will continue to attempt referenda to get around revenue limits. The data indicate that the 94 districts of Southeastern Wisconsin have found support in their communities for the passage of 196 referenda since 1991. Another 225 were attempted and failed. This Research Brief highlights local experience with referenda.

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The Public Policy Forum's Annual Public Schooling in Southeastern Wisconsin

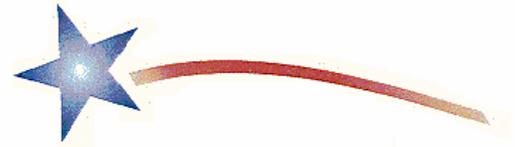
The Public Policy Forum's annual report on public schools in Southeastern Wisconsin will be available to purchase for \$20 in September of 2003. The report will include:

- An expanded analysis of budgeted finances for the 2002-03 school year for each of the 94 school districts in the seven-county region.
- Rankings of K-12 school districts in the region according to enrollment, student participation, student performance, and college preparatory indicators.
- A pull-out poster which provides the rankings information in an easily accessible format.
- A look at how the districts measure up to the student performance requirements of the federal No Child Left Behind Act.
- A compilation of student demographic characteristics in each of the school districts.
- A directory of school officials throughout the region.

The Public Policy Forum's annual Public Schooling in Southeastern Wisconsin report will be released in September, which will include an expanded section on school finance. This Research Brief provides a more detailed analysis of the referendum requirement of Wisconsin's school finance law than is provided in the report.

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Debt Referenda Have More Success than Revenue Cap



Research Brief

Under Wisconsin’s school finance laws, school districts must operate under revenue limits, meaning that they are only allowed to take in a certain amount per pupil in state aid and property taxes each year. These revenue limits also work as restraints on district spending. However, there are always extenuating circumstances. If a district determines that it needs more revenue in a particular year, it can go to the taxpayers (who would finance the additional revenue) and ask to receive more revenue in the form of a referendum. Such a measure is known as a referendum to exceed the revenue cap, and can be recurring (meaning that extra revenue will be needed for more than one year) or non-recurring (meaning that the revenue is just for one year). Of course, if a school district wants to take out debt in order to fund a capital project, it would not come from the taxpayers. However, taxpayers would be required to pay off the debt secured in future years; their permission is also needed for borrowing. Thus, in this Research Brief, we will look at two types of referenda: those to exceed the revenue cap for operating costs and those to secure debt for capital projects.

As Table 1 reveals, debt referenda are both more likely to be attempted in Southeastern Wisconsin school districts and, once attempted, more likely to succeed than referenda to exceed the revenue cap to pay for operating costs. There have been 421 referenda attempted in Southeastern Wisconsin since 1991, 61% of which were debt referenda and 35.6% of which were revenue cap referenda. A slight majority (53.4%) of total referenda failed, while 46.6% were successful. This pass-fail ratio is reversed when only debt referenda are taken into account; 52.9% of such referenda have passed, while 47.1% have failed. Revenue cap referenda have been much less successful, with less than a third, 32.7%, passing and 67.3% failing.

Another way to look at the success and failure of referenda is provided in Table 1. Specifically, 69.4% of total successful referenda in the region were for debt, almost ten percentage points higher than debt referenda’s share of total referenda. On the other hand, only 25% of successful referenda were to exceed the revenue cap, more than ten percentage points less than that referendum type’s percentage of the total. Such statistics exhibit

Table 1. Referenda in Southeastern Wisconsin School Districts since 1991

Total Referenda	421	
<i>Long-Term Debt</i>	257	61.0%
<i>Revenue Cap</i>	150	35.6%
<i>Passed</i>	196	46.6%
<i>Failed</i>	225	53.4%
Debt Referenda	257	
<i>Passed</i>	136	52.9%
<i>Failed</i>	121	47.1%
Revenue Cap Referenda	150	
<i>Passed</i>	49	32.7%
<i>Failed</i>	101	67.3%
Passed Referenda	196	
<i>Long-Term Debt</i>	136	69.4%
<i>Revenue Cap</i>	49	25.0%
Failed Referenda	225	
<i>Long-Term Debt</i>	121	53.8%
<i>Revenue Cap</i>	101	44.9%

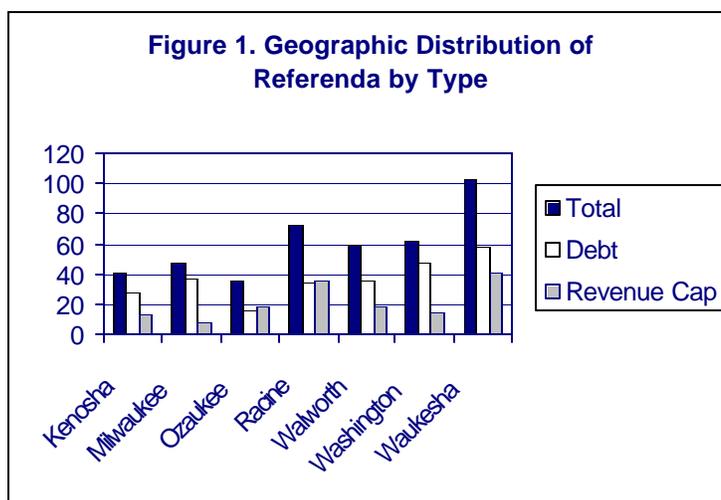
Waukesha County Districts Attempt the Most Referenda



that debt referenda have been significantly more successful, and revenue cap referenda have been significantly less successful, than would be expected from the composition of total referenda in Southeastern Wisconsin.

Figure 1 provides a graphic presentation of the geographic distribution of referenda that have been attempted in Southeastern Wisconsin. The figure shows that school districts in Waukesha County have attempted by far the most referenda in the region, 103. Racine County comes in a distant second with 73, followed by Washington County at 62 and Walworth County at 59. Milwaukee County's school districts come in fifth, with 48 referenda attempted, while Kenosha County's districts have attempted 41, and Ozaukee County, which has by far the smallest number of districts, has only attempted 35 referenda.

Figure 1 also reveals that five out of the seven counties follow the regional pattern in terms of the type of referenda attempted; in each of these counties, most of the tried referenda have been for debt. Washington and Milwaukee Counties have been the most lopsided in terms of debt referenda, with 77.4% and 77.1% respectively of their referenda for long-term borrowing. In Kenosha County, 68.3% of attempted referenda have been for debt, while the number is 61% in Walworth, followed by 56.3% in Waukesha County's school districts. Racine and Ozaukee Counties have asked to spend over the revenue cap more often than they have attempted to secure additional debt. In Racine County, 46.6% of referenda have been for debt, while 49.3% have been for spending above the revenue cap. In Ozaukee County, the majority of referenda, 54.3%, have been for revenue limit purposes, while only 45.7% was to take out debt.



In Kenosha County, 68.3% of attempted referenda have been for debt, while the number is 61% in Walworth, followed by 56.3% in Waukesha County's school districts. Racine and Ozaukee Counties have asked to spend over the revenue cap more often than they have attempted to secure additional debt. In Racine County, 46.6% of referenda have been for debt, while 49.3% have been for spending above the revenue cap. In Ozaukee County, the majority of referenda, 54.3%, have been for revenue limit purposes, while only 45.7% was to take out debt.

Methodology

The Department of Public Instruction (DPI) maintains a database of referenda that have been attempted in Wisconsin's school districts. Along with a database of all referenda as of June 19, 2003, are four more specific databases: one for only debt referenda, one for only revenue cap referenda, one for only successful referenda, and one for only failed referenda.

After creating new databases from each of the five DPI databases that include only referenda in Southeastern Wisconsin school districts, the Public Policy Forum verified that referendum entries on each of the detailed lists matched those on the master list. We did most of the analysis off the master list, but filled in some gaps from the detailed lists that were not on the master list.

It should be noted that we counted each entry as one even though some multiple referenda for the same purpose were attempted on the same day. This most often occurred with non-recurring referenda, when several are passed at one time, one for each of the next several years.

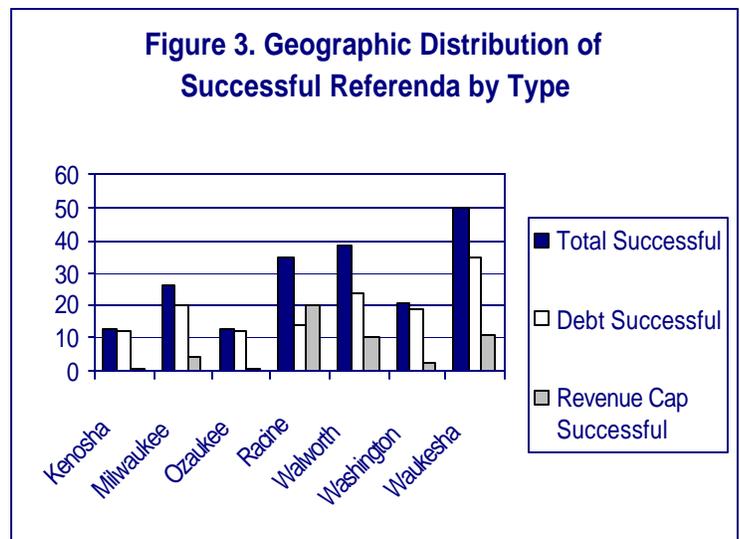
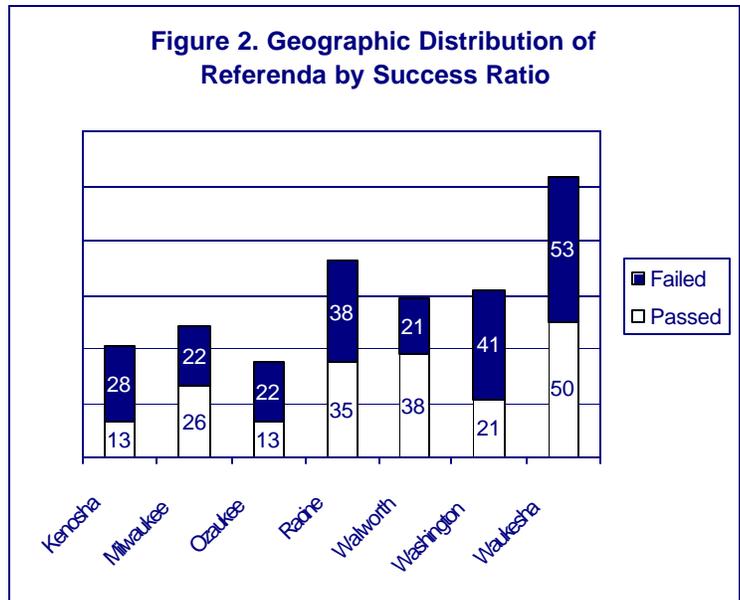


Walworth County's Districts Have Most Success in Referenda

School districts in five out of the seven counties in the region have experienced more failure than success when attempting to get referenda passed, as has been the case at the regional level as a whole. Figure 2 reveals that Kenosha County school districts have been the least successful, with 28 of their attempted 41 referenda ending in failure and only 13 succeeding, a 31.7% success rate. Washington County's districts have not done much better, although they have tried more often. Forty-one out of 62 have failed, while only 21 have passed, a 33.9% success rate. In Ozaukee County, 37.1% of its districts' attempted referenda have succeeded. In Racine County, the success rate has been significantly better, 47.9%, while Waukesha's rate of success has been 48.5%. Milwaukee County's school districts have been successful more often than not, with a 54.2% success rate. Finally, Walworth County has had by far the most success; nearly two-thirds, 64.4%, of its districts' attempted referenda have passed, 38 out of 59 attempted.

Figure 3 breaks down each county's successful referenda into either debt or revenue cap. As is the pattern at the regional level, successful referenda in most of the counties are substantially more likely to be debt referenda than revenue cap referenda. In both Kenosha and Ozaukee Counties, 92.3% of successful referenda have been those asking to secure debt. Washington County's districts are not far behind, with 90.5% of successful referenda being debt. In Milwaukee County, 76.9% of its successful referenda have been debt, while the number is 70% in Waukesha County. In Walworth County school districts, debt referenda account for 63.2% of successful referenda. Racine County is the sole pattern-breaker. Only 40% of successful referenda there were for long-term borrowing, while 57.1% were to exceed the revenue cap. The anomaly in Racine County is due to the Racine Unified School District asking to exceed the revenue cap for non-recurring purposes several times, and succeeding in most of them.

Not only do debt referenda account for most of the successful referenda in each county, but when each type of referendum is examined, the success rate is higher for debt than for revenue cap referenda. Specifically, the majority of debt referenda passed in four out of seven counties (with Kenosha, Racine, and Washington County districts passing less than half of their debt referenda), while only two of the seven counties succeeded in passing more than half of their referenda to exceed the revenue cap — Walworth and Racine Counties.



Referenda that are Attempted Multiple Times Have Good Chance for Success



Sometimes over the past several years, school districts have asked for debt funding for a project as well as for authorization to exceed the revenue limit in order to finance the operating costs of that project. For example, on the same election date, a school district will ask for debt funding to build a new school and to go over the cap to pay for the new building's expenses. There have been 16 such instances in the region, and they tend to have a much lower success rate in general. Only five such debt referenda have passed. Also, voters have been somewhat more willing to approve the debt for the actual project than to allow the district to exceed the revenue cap to pay the project's operating costs. As a result, only two of the revenue cap referenda in such situations have been successful. Table 2 shows these referenda broken down geographically.

Table 2. Projects for which Debt Referenda Were Attempted and Revenue Cap Referenda Were Attempted for Their Operation

	Total Tried	Debt Passed	Revenue Passed
Kenosha	0	N/A	N/A
Milwaukee	1	0	0
Ozaukee	1	1	0
Racine	1	0	0
Walworth	4	2	1
Washington	5	0	0
Waukesha	4	2	1
Southeastern Wisconsin	16	5	2

Of course, the only limit on the number of times school districts ask for the same referendum is the voters' patience. In general, as Table 3 shows, it is likely that voters will eventually approve a debt referendum even if they did not approve it the first, second, or even third time. In Southeastern Wisconsin, 37 specific referenda have been attempted at least once more after failing the first time; 27 of these, or 73%, have eventually passed. Walworth County is the success story in this case; its districts have attempted eight different referenda more than once, and all of them have passed.

Districts in the remaining counties have tried with varying degrees of success, and it is important to note that the biggest determining factors of eventual success or failure of such referenda (and indeed any referendum) are likely characteristics that are specific to each school district. For example, some districts with referenda that eventually pass have lowered the amount of money for which they are asking; this may lead one to suspect that districts that ask for smaller amounts of money are more likely to succeed. However, other school districts have passed referenda on the second, third, or fourth time asking for more money than in the original referendum. Thus, it is likely that specific lobbying techniques by the school district, or the level of knowledge of the voters with regard to what is needed, are most relevant to a referendum's fate.

	Total Tried More than Once	Total Eventually Passed	Percent Eventually Passed	Avg Times Eventually Successful Referenda Tried
Kenosha	3	2	66.7%	2.5
Milwaukee	6	5	83.3%	2.6
Ozaukee	2	2	100.0%	2
Racine	8	3	37.5%	3.3
Walworth	8	8	100.0%	2.1
Washington	4	3	75.0%	3
Waukesha	6	4	66.7%	2
Southeastern Wisconsin	37	27	73.0%	2.3

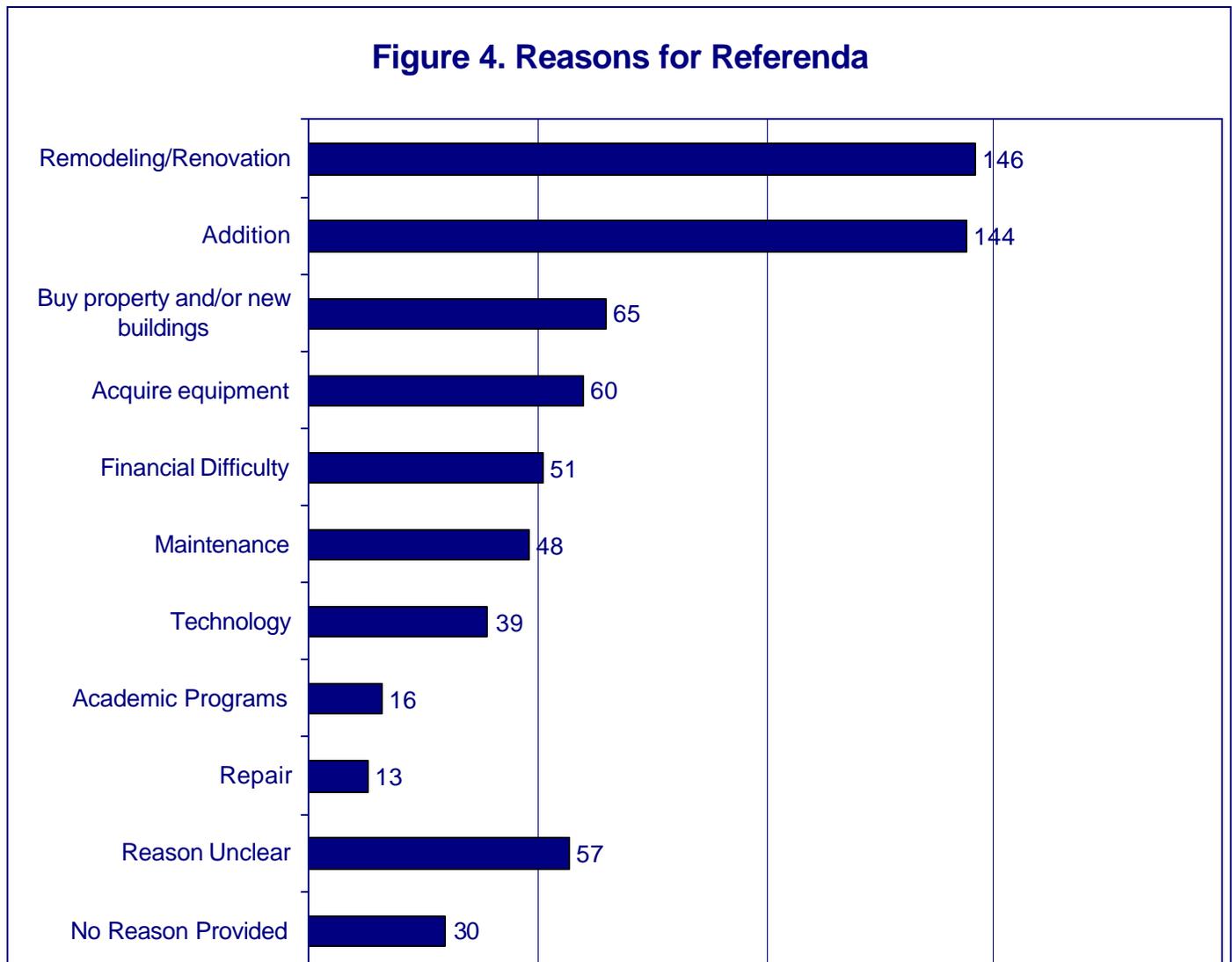


Largest Number of Referenda Attempted are for Remodeling, Renovation, or Additions

The Department of Public Instruction's referendum database includes the reason for most of the referenda that have been attempted, although, as Figure 4 reveals, 30 of the referendum entries have no reason provided, and 57 of the reasons are unclear. The unclear reasons are mostly for revenue cap referenda and merely note that the referendum is for recurring or non-recurring expenses.

The Public Policy Forum coded the remaining reasons given into the nine categories shown in Figure 4. It should be noted that the numbers in that figure, which indicate the number of referenda in each category, add up to more than the 421 total referenda in Southeastern Wisconsin. This is because a school district may ask for a referendum for more than one purpose, leading the referendum to be coded in more than one category. An example of such a situation is a school district that asks for a referendum to build an addition to a school building and to renovate the remainder of the school.

The largest number, 146, of referenda can be classified as renovation or remodeling referenda; these include improvements, upgrades, and conversions. Nearly as many referenda, 144, were coded as additions to existing buildings. Reasons that were classified as such include classroom additions, expansions, new gyms, and swimming pools.



Remodeling or Renovation Referenda Are Most Successful



The remaining categories include substantially fewer referenda than the first two categories. The purchase of property and/ or the construction of new buildings on that or other property were requested 65 times. Equipment was requested to be acquired slightly fewer times, 60; the acquisition of new equipment often went hand-in-hand with the construction of new buildings. Reasons that could be coded as financial difficulty accounted for 51 referenda, reasons that include funding budget shortfalls, improving a district's cash flow position, or simply current operating costs. Maintenance of buildings was a reason for 48 referenda, while technology improvements accounted for 39. Referenda have been attempted 16 times for what can be classified as academic programs, such as class size reduction or curriculum development. Finally, 13 referenda were coded as repair reasons.

Table 4 shows how successful referenda have been based on their stated reasons. Remodeling or renovation referenda have been the most successful, with 62.3% of those tried passing. Repair referenda come in a close second, with a 61.5% success rate, followed immediately by equipment acquisition referenda, with 60% successful. Most referenda for additions, 56.9%, also passed, while 51% of financial difficulty referenda were successful. In the remaining categories, most referenda failed. Only 46.2% of referenda in order to buy property and/ or new buildings passed, followed by a 43.6% success rate for technology referenda and 41.7% for maintenance. Less than a third of academic program referenda passed.

Table 4. Types of Referenda and their Success or Failure According to Category

Category	Debt (Percent of Total Debt Ref.)	Revenue (Percent of Total Revenue Ref)	Passed (Percent of Total in Category)	Failed (Percent of Total in Category)
Remodeling/Renovation	55.3%	2.0%	62.3%	37.7%
Addition	54.9%	1.3%	56.9%	43.1%
Buy property and/or new buildings	25.3%	0.0%	46.2%	53.8%
Acquire equipment	23.3%	0.0%	60.0%	40.0%
Financial Difficulty	0.0%	34.0%	51.0%	49.0%
Maintenance	7.4%	19.3%	41.7%	58.3%
Technology	8.2%	12.0%	43.6%	56.4%
Academic Programs	0.0%	10.7%	31.3%	68.8%
Repair	5.1%	0.0%	61.5%	38.5%
Reason Unclear	0.0%	36.7%	22.8%	77.2%
No Reason Provided	7.0%	0.7%	33.3%	66.7%



Most School District Referenda Fail

The Legislature's attempted three-year property tax freeze on municipal and county government and technical colleges included a provision to allow taxpayers to approve increases in property taxes through a referendum. Although the tax freeze measure has been defeated as part of the budget, the idea of asking taxpayers' permission to increase taxes is already a part of Wisconsin law. School districts must get their citizens' approval to increase revenue above certain limits and to secure debt for capital projects. This Research Brief examines Southeastern Wisconsin school districts' experience with such referenda. Among the findings:

- There have been 421 total referenda in Southeastern Wisconsin school districts, 61% to take on debt and 35.6% to exceed the revenue cap.
- Almost 47% of the region's referenda have passed, while 53.4% have failed.
- Debt referenda tend to be more likely to pass; 52.9% of debt referenda have been successful, while only 32.7% of revenue cap referenda have succeeded.
- Walworth County districts have been the most successful in the region in terms of passing referenda; 64.4% of their referenda have passed, and 100% of referenda the districts have tried more than once have been successful.
- The most common reasons given for referenda to take on debt are either to remodel or renovate buildings in the district or to build additions onto buildings. The predominant reason given for referenda to exceed the revenue cap is financial difficulty.

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