# **A FUNDING CHOICE**

### MIXING PUBLIC & PRIVATE SCHOOL FUNDING



## Executive Summary A Funding Choice

In 2015, Wisconsin changed how it funds two private school choice programs. The Racine and statewide programs were once paid for from a separate state appropriation. However, since the 2015-16 school year, new enrolling students are now accounted for in two public school formulas: revenue limits and state equalization aid. The state then deducts the payments for these programs from the aid dollars of the public school district in which the student resides. The deducted amounts are then used to pay for the programs. The state also created the special needs scholarship (SNSP) program and expanded the independent charter school program. Both are funded in a similar way. While the effects of this new funding method were small early on, they have grown significantly. One impact in 2024-25 is \$337 million in higher school property taxes.

School funding is extremely complex. The current funding system adds another layer of complexity, which, among other things, "hides" the impacts. The bottom line is that the current system replaces the aid deduction for the cost of these programs with property taxes. It also changes the distribution of state equalization aid resulting in "hidden" property tax shifts for districts with no students in these programs.

To understand the total impact of this funding, a simulation of school revenue limits and state equalization aid was conducted, removing these students and their costs from the 2024-25 calculations. The results of this "decoupling" were then compared with 2024-25 actual revenue limits, equalization aids, and property taxes for each school district.

The simulations show that for nearly all districts, a decoupling would have no impact on the amount of revenue available for their students. For some it would mean more and for a few it would mean a decline of less than 1%.

A decoupling would also mean a property tax reduction for 407 of 421 districts, with 293 of them seeing a cut of at least 5%. Thirteen districts would see no change. Due to its large number of independent charter students and its low per student revenue limit, the maximum allowable property tax levy in Beloit would increase approximately 3%.

While decoupling would benefit property taxpayers significantly, it would have cost the state \$343 million in the current fiscal year. That amount will likely grow in subsequent years.

## A Funding Choice

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Dale Knapp, Director

State-funded private school choice has been available in Wisconsin since the 1990-91 school year. For the first 20 years, it was available only to low-income students who were residents of the city of Milwaukee. It was expanded to the Racine Unified School District in the 2011-12 school year and statewide beginning two years later. The programs limit participation to children from families with incomes less than 300% of the poverty level (\$93,600) for Milwaukee and Racine and 220% of the poverty level (\$68,640) for the statewide program.

The method of funding these programs has varied over time. At times, the state paid for them via a separate appropriation. At other times, some of the funding came from a deduction of state aids from public school districts in which the students resided.

Initially, the Racine and statewide programs were funded by a state appropriation that was separate from public school funding. In 2015, that changed. Previously enrolled students in the Choice programs continue to be funded that way. However, new enrolling students are now accounted for in two public school formulas: revenue limits and state equalization aid. The state then deducts the payments for these programs from the aid dollars of the public school district in which the student resides.

The state created a special needs scholarship program (SNSP), allowing students with an individualized education program to attend private schools with public funding. The scholarships are funded the same way as the current Choice program. The independent charter school (ICS) program was also expanded and funded similarly. The new ways of funding Racine and statewide Choice, SNSP, and ICS negatively impact property taxpayers. That and other impacts are addressed in this report.

To be clear, this study is not about whether or not Wisconsin should have private school choice. Rather, the focus is on how the state's funding change has impacted public school finances and taxpayers.

To understand the effects of this funding change, a basic understanding of public school funding is helpful.

#### SCHOOL FINANCE BASICS

While Wisconsin school finance is complicated, the focus here is on the basics of school revenue limits and state equalization aids. These are the vehicles through which the impacts of the funding changes are created. Because equalization aid is a component in the revenue limit calculation, the discussion begins there.

#### Equalization Aid

The primary aim of state equalization aid is to equalize the fiscal capacity of Wisconsin's public school districts. The driving principle is to ensure the tax rate needed to fund a certain amount of spending per student should be the same regardless of a district's property wealth.

To achieve its aim of funding equality, the aid formula, though complex, has two basic features. First, districts with lower property values per student have a greater share of costs covered by the state relative to districts with high per-student property values. Second, districts with lower per student spending have a greater share of costs covered relative to higher spending districts. When Choice/SNSP/ICS students are included in the equalization aid formula, aid allocations are shifted for nearly all public school districts, affecting school property

taxes.

Equalization aid is calculated on **prior-year** costs and student counts. The amount a district receives is determined by its per-student spending and per-student property value, **and** by the per student spending and property value of all other districts.

This last feature is critical for the discussion here. When Choice/SNSP/ICS students are added to the equalization aid formula, not only does the aid for districts with these students change, but, as we will see, aid changes for districts without Choice, SNSP, or ICS students.

#### Revenue Limits

State law caps the amount of revenue public school districts can generate from a combination of general aids (99% of which are equalization aids) and local property taxes.<sup>1</sup> These limited

1 Excludes property taxes levied for capital projects approved at referendum.

#### **Revenue Limit Calculation**

1. Calculate enrollment based on a three-year average.

2. Determine allowable revenue per student.

3. Calculate initial total limited revenues by multiplying the results of steps one and two.

4. To the result of step 3, add any allowable recurring or non-recurring additions to determine total limited revenues.

5. Subtract total general aids and two smaller aids from the result of step 4 to determine maximum allowable property tax.

revenues averaged 72% of public school revenues in 2022-23. The remainder comes from other state aids, federal aid, and fees.

To calculate its revenue limit, a district uses a three-year average of its enrollment (see box). It then determines its current allowable per-student revenue and multiplies that by the previously calculated student count. Then, several additions are available that may increase the district's total limited revenues.

Once total limited revenues are determined, general aid and two other small aids are subtracted to determine the district's maximum property tax levy. While most districts levy the maximum allowed, some districts have occasionally levied less than this amount.

With that background, we now turn to the funding of Choice/SNSP/ICS programs and its impacts.

#### CHOICE FUNDING

As mentioned above, funding for school choice in Wisconsin has varied. Initially, Milwaukee Choice was fully funded by an aid reduction from Milwaukee Public Schools (MPS). Funding then shifted to a combination of direct state funding and an aid reduction from MPS. The share of costs paid by the aid reduction has been gradually phased out, with the state directly paying the full cost in 2024-25.

The funding path for the statewide and Racine Choice programs is the opposite. The programs were originally paid for with a separate state appropriation and have shifted to funding via an aid deduction from the public school district in which the Choice/SNSP student resides.

Table 1 on page 7 shows one impact of this funding shift: fewer equalization aid dollars for public school students. The first two columns in the table show total equalization aids and the aid deductions for the cost of these programs. The last two show the amount of total equalization aid per public student and the amount after the deduction. This latter amount is what the average public school district actually has available for its students in equalization aids.

#### Funding Mechanics - Aid

Since 2015, students in Choice, SNSP, and ICS, and their costs, are counted in the state equalization aid formula. The resulting allocations are

 Table 1: Effects of "New Funding" Method

 Aid/Public Student Before & After Voucher Reduction

	Aid in \$ Millions		Aid Per Public School Student	
	Equalization Aids	Aid Reductions	Total	After Deduction
2015-16	\$4,396.2	\$0.0	\$5,523	\$5,523
2016-17	4,505.4	0.2	5,410	5,410
2017-18	4,515.3	45.8	5,439	5,384
2018-19	4,594.6	77.9	5,562	5,468
2019-20	4,687.9	110.0	5,703	5,569
2020-21	4,852.8	142.2	6,065	5,887
2021-22	4,945.4	173.5	6,224	6,006
2022-23	5,155.0	212.5	6,538	6,268
2023-24	5,288.9	294.2	6,777	6,400
2024-25	5,535.6	342.9	7,159	6,715

used in each district's revenue limit calculation (step 5 in the box on page 6).

However, the district does not receive the entire amount. The state withholds an amount equal to the cost of Choice/SNSP/ICS students residing in their district. If the district does not have enough aid, the state withholds from other state aid programs. As we will see, including these students in the formula affects the aid of nearly all districts, not just the aid of those with these Choice/SNSP/ICS school students.

#### Funding Mechanics - Revenue Limits

The Choice/SNSP/ICS students are also accounted for in the revenue limit calculation, but in different ways.

*Choice/SNSP:* For Choice and SNSP, the district does not count the students directly. Rather, it is allowed an addition to the revenue limit (step 4 in the box on page 6) equal to its projected costs for these programs. The costs are later deducted from its equalization aid.

Because the revenue limit addition and the aid deduction are the same, the district is held harmless in terms of total revenue limit resources for the students it educates. The exception is districts with not enough aid to cover the cost, requiring a reduction from other state aids. Their **total** resources will be reduced by the amount the state withholds from other aids.

*Independent Charter:* Independent charter students are included with the district's public school enrollment in the revenue limit calculation (step 1 in the box). Thus, the district's limited revenues are increased by a three-year average of the number of ICS students multiplied by the district's per-student revenue limit. Since per-student limits vary by district, the amount of additional revenues generated also varies.

In 2024-25, 90 districts had ICS students. In 19, these students generated enough revenue in the revenue limit calculation to replace the aid deduction. In the remaining 71, revenue generation was less than the deduction. These districts are not held harmless in the current year. However, some of this "loss" may be recouped with additional equalization aid in the following year.

As with Choice and SNSP, if districts with ICS students have insufficient general aid to cover the aid deduction, other state aids are used to cover the difference. Their total resources are reduced.

Looking at the total picture (Choice, SNSP, and ICS), 19 districts had insufficient general aid in 2024-25 to cover the aid deduction and had other aids withheld.

#### Shifting Property Taxes

One of the impacts of the new funding method is a shift of school revenues from state aid to local property taxes. An example highlights this shifting as outlined in Table 2 below.

*No Choice (column 1):* A school district with 1,000 students and a per-student revenue limit of \$11,000 has a total revenue limit of \$11 million (row e). It receives \$7 million in state aid (f), and levies the remaining \$4 million (g). The district has \$11 million to fund its students.

*Choice (column 1):* Now consider the same district, but with 100 Choice students costing \$1 million. The district's revenue limit is now \$12 million (e): an \$11 million base plus the \$1 mil-

 Table 2: Property Tax Shifting Example

 How Choice Funds Shifts Costs to the Property Tax

		No Choice	Choice
		NO CHOICE	Choice
(a) Public Students		1,000	1,000
(b) Choice Students		0	100
(c) Rev. Limit Base		\$11,000,000	\$11,000,000
(d) Choice addition		\$0	\$1,000,000
(e) Total Rev. Limit	c+d	\$11,000,000	\$12,000,000
(f) General Aid		\$7,000,000	\$7,000,000
(g) Property Tax	e-f	\$4,000,000	\$5,000,000
(h) Aid + Prop. Tax	f+g	\$11,000,000	\$12,000,000
(i) Choice Aid Ded.	d	\$0	\$1,000,000
(j) Public Resources	h-i	\$11,000,000	\$11,000,000

The current way of funding for Choice/ SNSP programs shifts funding of some school costs from state general aid to the property

tax.

lion Choice addition. After subtracting state aid from total revenue limits, the maximum property tax levy of this district is \$5 million (g), or \$1 million higher than without Choice students.

Despite the district having a higher revenue limit when it has Choice students, it has the same amount of resources (\$11 million) for its public school students (row j), with or without Choice. The \$1 million dollar difference in the levy is equal to the cost of the students in the Choice program. In other words, when the Choice cost is deducted from the district's state aid, that cost is then shifted to the local property tax.

Making that calculation for all districts in 2024-25 shows a wide range of property tax effects (see Figure 1). In 50 districts without Choice/ SNSP students living in the district, there was no shifting. Most of the other districts had a property tax effect of less than 5%. However, 56 of 421 school districts saw a 10% or more increase in school property taxes due to this shifting.

#### Figure 1: Property Tax Effect of Choice/SNSP Property Tax Shift Due to Backfilling Aid Deduction



While 50 districts experienced no shifting because they did not have Choice/SNSP students, they did experience a "hidden" impact due to the inclusion of these students in the aid formula. That issue is addressed next.

#### Shifting Aid

Recall that equalization aid for a district depends not only on its own per-student spending and property values, but also those of other districts. When Choice/SNSP/ICS students are added to the aid formula, nearly every district's aid changes.

The reason for this is that counting these students makes a district with them look poorer in terms of property wealth. The district's property values do not change, but the number of students is larger, reducing property value per student. Thus, their aid per student rises. More importantly, that higher aid is multiplied by an increased number of students counted in the formula, shifting aid to these districts. That aid has to come from somewhere, and part of that shift is from districts without these students.

To highlight this effect with an example, 100 students with a total cost of \$1 million were artificially added to the Racine Unified School District. The aid formula was then recalculated, distributing the same total amount of aid that was actually distributed in 2024-25.

This hypothetical change shifts \$1.1 million of aid to Racine. Forty-nine districts are unaffected because their per student property values are so high that they receive no equalization aid or they receive a small amount of guaranteed aid. All other districts experience an aid decline.

The hypothetical aid decline for these 371 districts is what happens to the 50 districts that currently have no Choice, SNSP, or ICS students. In aggregate, districts with Choice/SNSP/ICS students are eligible for more aid, leaving less for districts without these students. That reduced aid shows up in their revenue limit calculation, resulting in the hidden property tax increase.

These are many of the impacts from the current funding formula. To identify the complete visible and invisible effects, we now compare the current system with one in which these programs are funded in a way that does not impact the finances of public school districts.

#### DECOUPLING

Removing Choice, SNSP, and ICS students from public school finance calculations and funding the programs from an separate GPR appropriation is often referred to as "decoupling." Under current law, this process would take several years. Since state aids are based on prior-year costs and students, a decoupling from the equalization formula would take two years. A full decoupling of the revenue limit formula would take four years to complete due to the three-year averaging of current and prior-year students. ICS students are included in prior-year counts and would be phased out year by year.

To simulate the effects of decoupling, 2024-25 revenue limits and equalization aid are recalculated excluding Choice/SNSP/ICS students. In other words, this simulation shows what 2024-25 school finances would have looked like if a full decoupling were in place and these programs were funded by a separate GPR appropriation. A discussion of the general path of revenue limits and property taxes during a four-year decoupling is discussed on page 10.

It is important to understand that all simulations are using 2024-25 data and show the general direction of changes. Under an actual decoupling, enrollments and school costs change, affecting revenue limits and aids. The actual decoupling would only look similar to what is presented here.

#### Decoupling Revenue Limits

For public school districts, the results of revenue limit decoupling is most important. It answers the question: Would the amount of resources for public school students in my district be affected? The answer to that question for most districts is no.

In the 331 districts without ICS students there is no change in the amount of revenue limit dollars available for their students (see page 7 for the explanation and Row j of Table 2). For districts with ICS students, there may be a change, though for most it is very small.

The reason is that the revenue generated from ICS students is not the same as the amount deducted. Under decoupling, these gaps are eliminated. For almost all of these districts, the revenue limit effect is either a decline of less than 1% or an increase in resources available for students in the district. The biggest gain in the simulation is for the School District of Beloit, where the

simulated decoupling shows an additional \$2.3 million (or 3.5%) in revenue limit dollars available for their students.

With public school revenues unchanged or little changed for nearly all districts, the aid and property tax impacts of decoupling are explored next.

#### Decoupling Aid

Decoupling equalization aid creates a wide range of outcomes, some that may seem counterintuitive. The reason is that there is a large variation by district in the number of Choice/SNSP/ICS students.

Overall, a decoupling in 2024-25 would have meant more aid for 265 districts, less for 1038, and no change for the remaining 53. Figure 2 shows the range of changes.

In general, districts with the largest aid declines, in percentage terms, are those with large numbers of Choice/SNSP/ICS students. Districts with the largest increases tend to be those with higher property values per student.

Among districts with at least 50 Choice/SNSP/ ICS students included in their aid calculation, all would experience aid declines, with those declines becoming smaller as the number of these students fell. As the number of students moved below 50, decoupling resulted in more aid, with the gains rising as these student numbers fell.

#### Figure 2: Aid Impacts of Decoupling Based on 2024-25 Equalization Aid Formula



While the aid shifts are an important decoupling component, they only tell part of the story. There will also be changes in maximum allowable school property taxes.

#### Decoupling and Property Taxes

One of the effects discussed earlier was the property tax shifts that occur under the current system. Here, the property tax impact of decoupling is explored. This is more expansive. It accounts not only for the shifting that currently occurs, but also the "hidden" shifting discussed on page 8.

In aggregate, decoupling in 2024-25 would have resulted in a \$337 million school property tax reduction. The simulation shows reduced property taxes in 407 districts (see Figure 3). Another 13 would see no change in property taxes and just one (Beloit) would have an increase. Beloit's 3.0% rise in its maximum property tax levy is due largely to the additional revenue available for its students under the revenue limit.

Among districts with property tax declines, 293 would have seen cuts of at least 5%, with five seeing drops of 10% or more.

#### Varying Effects by Year

While the simulation of the "one year" implementation of decoupling shows very small, if any, effect on revenue limit dollars available for public school students and declining property taxes for nearly all districts, the four-year path to get there under current law would be a bit volatile in the first two years. The path would generally be one of large property tax declines in the first year followed by increases in the second.

### Figure 3: Property Tax Impacts of Decoupling 2024-25 Simulation



Under current law, districts with Choice/SNSP students would see a revenue limit decline equal to the current adjustment they receive for these costs. Those with ICS students would see a decline due to the removal of one year of those students. However, general aids for these districts would remain high due to the way the equalization formula counts prior year Choice/SNSP/ICS students and costs. Declining revenue limits combined with continued high aid results in declines in school property taxes in many districts.

In the second year, there is no additional revenue limit adjustment for districts with Choice/SNSP students, but there is another decline in revenue limit authority for districts with ICS students. Aids are now calculated without Choice/SNSP/ ICS students and their costs, resulting in a large shifting of aids. Generally, this shifting means lower aid for districts with large numbers of Choice/SNSP/ICS students.

With no or little change in the revenue limit and reduced aids for many districts, property taxes can rise significantly. However, while these maximum allowable property taxes would be higher than in year one, they would be remain lower than under the current system.

In the final two years of the decoupling, the only adjustments that occur are the gradual reduction of revenue limits as the last of the ICS students are removed from the revenue limit formula.

#### FINAL THOUGHTS

This report has highlighted the many impacts of funding Choice/SNSP/ICS students through the mechanisms set up for the funding of public schools. State equalization aids are shifted away from public students to pay for students participating in these programs. The cost of this shifting is replaced with higher school property taxes.

A return to state funding via a separate appropriation (decoupling) benefits property taxpayers and holds harmless nearly all districts in terms of revenues available to fund their public students.

At the same time, a decoupling would require the state to find new revenues to fund these programs. That cost was \$343 million in 2024-25 and is likely to grow in the years ahead.

A table with a list of the impacts for each school district is available at forward-analytics.net.

