

EDUCATION TASK FORCE

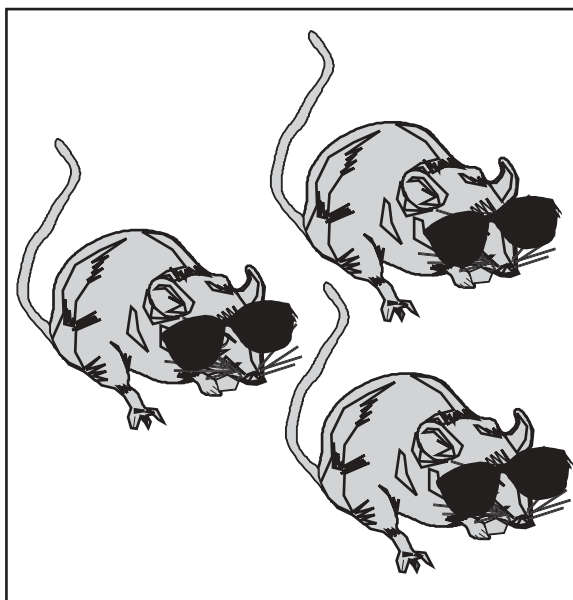
NEW WRAPPING CAN'T DISGUISE OLD IDEAS

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The final report of Governor Doyle's Task Force on Educational Excellence published last summer caught much of Wisconsin off guard. What was widely expected to be a re-crafting of the state's convoluted school funding formula was instead a wide ranging and thought provoking review of the state of education in Wisconsin. The Task Force cited the need to make numerous profound changes in our approach to education, all of which are pricy.

Wisconsin, historically touting an exemplary education system, now faces an uncertain future given the changing nature of the population and the complexities facing both students and teachers. The twenty-nine members of the Task Force seem united in telling all of Wisconsin that substantial changes are in order. Their report will be an uncomfortable read for those expecting another report documenting the quality of Wisconsin's schools.

While there is much to like about the Task Force report, it has four serious flaws that will be the focus of this essay. One flaw is the suggestion that the sales tax be raised in order to lower the property tax. A second flaw is the inability of the state budget to sustain the high-



er level of state aid recommended by the Task Force. A third flaw is the absence of any mention of what to do about the main driver of school spending: the cost of health insurance. Finally, the Task Force consistently implies that increased spending is the only route to better performance in the classroom.

However, before addressing the flaws, three overlooked elements of the report deserve comment. One is the learning gap between white and minority Wisconsin students that the Task Force documented. Those of us baby boomers have to realize that the face of Wisconsin is changing. The future prosperity of the state rests in the hands of a diverse student body, and much of that student body is entering the work force ill-prepared to meet its challenges.

Demographers tell us that by 2018 the number of people leaving the workforce will exceed the number entering the workforce in Wisconsin. A smaller workforce will be asked to support the swelling ranks of the retired. We all had better hope that the workforce is a

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productive one. Closing the learning gap is not just good for the minority students; it is good for those of us who plan to enjoy our golden years.

A second overlooked item is the Task Force finding that Wisconsin's school aid formula does not need changing. The education community for years has derided the ability of Wisconsin's school aid formula to adequately fund education, particularly the added burden related to special education and poverty. They have disparaged the formula at every turn including a much celebrated case brought before the Wisconsin Supreme Court. While there has never really been a champion for the current formula, there is now a highly visible Governor's Task Force on record as saying that the formula works just fine thank you. Look for that report to be quoted extensively the next time the formula is challenged in court.

Finally, it is notable that the Task Force passed on the opportunity to advocate doing away with revenue caps. This is more than a little incongruous with the bulk of the Task Force work. The report recommends no fewer than twenty-one new spending programs, most of which have multi-million dollar price tags. It would be understandable if readers of the report are a bit confused by the report suggesting all of the new spending while also recommending that revenue caps be retained. Whether the Task Force actually supports the revenue caps or simply felt that leaving them alone was a better strategy, it is notable that only minor tinkering with the revenue caps was suggested.

The Lure of Temporary Property Tax Cuts

Most of the reporting on the commission's work focused on its recommendation to buy a property tax cut by increasing the state's sales tax by 20%, up from five cents to six cents. Raising the sales tax to lower property taxes is an idea that has been kicking around the Capitol for several years. It was discussed at length by the Kettl Commission but did not garner enough interest to be included in the commission's final report. It was also recommended by a group of former state govern-

ment executives at the 2002 Economic Summit put on by the University of Wisconsin System. Each time the issue has been raised proponents note that Wisconsin ranks low among the states on the sales tax and high on the property tax. However, no action has been taken by any governor or legislature to advance the idea.

So why did the idea reappear in a report from a Task Force on Educational Quality? Isn't a tax swap clearly a tax policy issue and separate from the goal of educational quality? Many don't see it that way and here is why.

As detailed by the Task Force, the education community is really feeling the fiscal pinch. The primary money source for schools, the state budget, has been sick for the past four years and the immediate future looks no brighter. Things became so difficult in the last budget that the Governor and the Legislature were forced to renege on their commitment to fund two-thirds of school costs. By the end of this biennium state aids could be down to just 63% of school costs. This fiscal short-sheet is causing dozens of school districts to cut back on expenses across the board. Many are even reducing their teaching staff.

That leaves only the local property tax as a possible funding source. However, upping the property tax for school spending requires local voters to approve a referendum, a daunting challenge in nearly every setting. Not only is the property tax reviled because it is paid in large installments, it is widely understood that property taxes in Wisconsin are among the nation's highest.

The education community is feeling boxed in.

But the swap of a higher sales tax for a lower property tax offers a clever way out of this Hobson's choice. The Task Force was quite concerned about a growing rift between the homeowners who pay the property tax and the schools where the property taxes are spent. The report notes that since 1960, the percent of households with school-age residents has declined from 50% to 33%. With fewer households having school-age children, the educa-

tion community is growing increasingly concerned about the willingness of the property taxpayers to vote themselves a tax increase to pay for additional school operating costs.

The selling point for the swap is property tax relief. The Task Force report highlights lower property taxes and even includes a table detailing a precise cut in property taxes for many of the larger school districts. Not too far below the surface of the Task Force report is the notion that, by lowering the property tax, future school property tax referenda will be more palatable to the taxpayers. Buying property tax reduction with a sales tax increase is clearly intended to free capacity for future property tax increases. Thousands of taxpayers will eventually pay both the higher sales tax and a higher property tax.

This is exactly what occurred in 1996 when a \$1 billion increase in state funding yielded a 16.4% drop in the property tax levy. Yet, the effect was not lasting. While property taxes dropped in 1996, they began to creep up almost immediately. In the five years after the boost in state aid, school spending per student rose by an average of 4.96%, nearly double the 2.46% average annual increase in the Consumer Price Index (CPI). While much of the increase was offset by higher doses of state aid, the increase in the gross school levy during that time averaged 3.98%, or 1.5% above CPI growth.

Much of the higher spending is attributable to local voters approving hundreds of school referenda. Local school boards were aggressive in marketing referenda to local voters. They had a good sales pitch that was used repeatedly throughout Wisconsin. Local voters entered the voting booth knowing that their aging buildings could be replaced with mod-

ern buildings and the local taxpayer would only have to foot a small fraction of the cost. State aids would cover the bulk of the project cost. Since 1996, no fewer than 479 referenda have been approved by voters. Schools have stepped in to take advantage of the capacity which was freed up by the lowering of property taxes in 1996.

Look for a repeat of this trend if the Task Force recommendation becomes law with one difference. Rather than voting on bricks and mortar, future referenda will ask voters to support higher operating costs such as more teaching staff, continued extracurricular activities, etc. It will be easier for voters to approve these referenda with state funding picking up an average of 80% of the cost.

Unsustainable State Budget Commitment

Setting aside the wisdom of the proposed sales tax/property tax swap, at the core of the Task Force recommendation is a substantial increase state school aids. The recommended \$1.4 billion increase would increase the state share to approximately 78% of school costs. If this

sounds familiar, it should. It is a nearly perfect echo of the action taken in Madison in 1996. At that time, an energized economy provided unexpected revenue for the state treasury, revenue that allowed the state to add \$1 billion to school aids upping the state's share of school cost to two-thirds.

The statutory requirement for the state to fund two-thirds of school costs, while creating a burden on the state budget, was manageable through the latter part of the 1990s. However, when the economy softened in 2000, the state budget was placed into a crisis. Spending commitments far exceeded the flow of revenues into the state treasury. Most analysts pointed to the state's obligation to pay two-thirds of

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the cost of local schools as the major culprit for the budget crisis. What was doable in 1996 became a backbreaking spending pressure when revenue growth sagged. In 2003 Governor Doyle and the Legislature admitted the unsustainable nature of the two-thirds commitment and removed it from the law.

The Task Force recommends raising the state share to the neighborhood of 80% of school costs. Can future state budgets maintain this level of commitment? The answer is no under all but the rosier of revenue scenarios. State revenue growth will have to grow yearly by at least 5% forever for the state to meet that commitment. Other spending pressures including Medicaid, higher education, municipal shared revenues, corrections, etc. must stabilize. In addition, the Governor and the Legislature must find a way to close the \$750 million funding gap they face heading into the next budget.

In short, the likelihood of the state budget being able to sustain a commitment to fund 78% of school costs is nearly zero. Those who lived through the state budget challenges of the last four years must have blanched when they saw the Task Force recommend the same fiscal booby trap that snagged the state budget as recently as two years ago.

No Effort to Address How Health Insurance Costs Shrink the Education Dollar

The Task Force carefully documented how rising health care costs are eating into the education dollar, but the final report was silent on doing anything about it. The report noted the interplay between salaries and health insurance costs, since both must be accommodated within the Qualified Economic Offer (QEO). In recent years substantial health insurance cost increases have crowded out the ability of school boards to increase teacher salaries. Since 1998 the cost of a family health insurance plan has nearly doubled in Wisconsin schools. Since the QEO is a finite sum, the amount available for teacher salaries has been limited, causing Wisconsin teacher salaries to drop from fourteen to twenty-fourth among the states.

The Task Force solution to this dilemma is to eliminate the QEO, thus eliminating the competition between salaries and health care. Nowhere does the report suggest doing anything about skyrocketing health insurance costs. There is no mention of some typical measures taken by private businesses and other governments such as co-pays and deductibles.

Also strangely missing is any suggestion that local school boards should competitively bid their health insurance coverage. While businesses and governments have long understood that bidding for health insurance coverage yields lower premiums, most Wisconsin school boards are prohibited from bidding health insurance coverage. The contract they have with their teachers requires coverage from one specific insurance company. In nearly every case that company is the Wisconsin Education Association Council Trust, which is closely affiliated with WEAC, the union representing most state teachers.

Professor Mark Brown, Chairman of the Risk Management Program at the University of Wisconsin-Madison Business School, studied this phenomenon for the Wisconsin Policy Research Institute. His research suggested that by bidding health insurance coverage, similar to the way state government solicits bids to insure its employees, local school boards could save \$50 million in health insurance premiums. This would translate directly into additional salary dollars for teachers. It is likely that an update of this analysis would yield significantly higher savings today. However, the Task Force chose to ignore this cost-saving measure altogether.

The Report Links More Spending With Better Results

The Task Force report includes no fewer than twenty-one new spending initiatives. These include more money for smaller classes, for early childhood programs, minority teacher and student initiatives, an extended school year, and many more. Many of the items on the list look familiar while others such as a pilot residential school for homeless and foster

care children are quite innovative. By examining each initiative one-by-one it is possible to understand the merit in the Task Force thinking. They were looking for ways to bolster the underachievers in Wisconsin schools. But did they?

Maybe yes, but probably no. The Task Force traveled the same blind alley taken by study groups before them. It oversimplified the equation that yields successful schools, especially urban schools. Simply adding more money without attention to the keys to successful schools is likely to lead to continued disappointing results with a higher price tag.

Study after study has shown a very weak link between spending and student performance. For example, the Connecticut Office of Legislative Research found that “statistically, there is no correlation between per-pupil spending and student performance . . . less than five percent of the variation in test scores across school districts is explained by per-pupil spending.”

Right here in Wisconsin there are many examples of schools that rely on non-monetary changes to improve student performance. Barton Elementary in Milwaukee has a higher proportion of black children and a higher proportion of poor children than the average MPS school. Yet, Barton children consistently hit home runs on standardized tests. They are not only above average for MPS elementary schools; they surpass the performance of the average elementary school for Wisconsin as a whole.

Barton’s success is not spending driven. Rather it is linked to the quality of leadership, the commitment of the community of teachers, the high expectations placed on students, and a school environment with clear structure and

clear rewards. More money by itself will hardly ensure that these traits can be exported to other elementary schools.

Equally troubling is the fact that the Task Force made no recommendations on how existing education dollars could be redirected to produce better student performance. In effect, the Task Force did what study committees through the years have done which is to brush past the \$8.4 billion of existing spending and go directly to the taxpayer for additional support. Even a token gesture to reallocate existing funding would have provided more legitimacy to the Task Force work product. Without this component the report can easily

be portrayed as only the latest attempt to get more tax dollars into Wisconsin schools.

Will the Report Impact the Next State Budget?

Analysts and policy wonks will struggle to reduce the work of the Task Force to a thirty-second sound bite. Consider the following dichotomies found in the Task Force recommendations:

- *Increase* the sales tax in order to *reduce* property taxes.
- *Eliminate* the QEO to allow teacher salaries to rise but *maintain revenue caps* to control the overall level of school spending.
- *Keep the revenue caps* to limit the growth in K-12 spending while increasing categorical aids by \$110 million, all of which would be *beyond the control of revenue caps*.

If these recommendations seem confusing that is because they are. However, two things are clear from the report. First, the Task Force was predisposed toward substantially increasing school spending. Second, the Task Force understood that Wisconsin property taxpayers are tapped out and cannot be looked to for

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additional money. Understanding these two underlying principles greatly clarifies the Task Force recommendations. The shift between the property tax and the sales tax will free up capacity within the property tax, capacity which local schools can tap into in the future.

It would have been more forthright but less politic for the Task Force to directly argue for additional spending over the long haul by upping the property tax. While that is exactly what the Rube Goldberg machine they created will do, the report creates enough turning gears and whirling discs to distract even the most careful observer. The report will be battle tested during the upcoming election season. It will be interesting to see what parts of the report are still spinning and whirring next spring when the Legislature gets down to the business of assembling the next budget.

The Task Force is to be commended for articulating some troublesome issues facing Wisconsin's education scene. It notes the need to significantly step up the performance of minority children, especially in urban schools. It even included some interesting recommendations such as extended year programs and residential schools for homeless and foster care children.

However, the more innovative suggestions are overshadowed by the all-too-familiar themes in the report: more spending for categorical aids, a short-term property tax cut, and acquiescence to the ever-rising cost of health insurance. Frankly, these are some of the traditional ideas that have led to the current problems facing education in Wisconsin, problems, which were carefully documented by the Task Force.