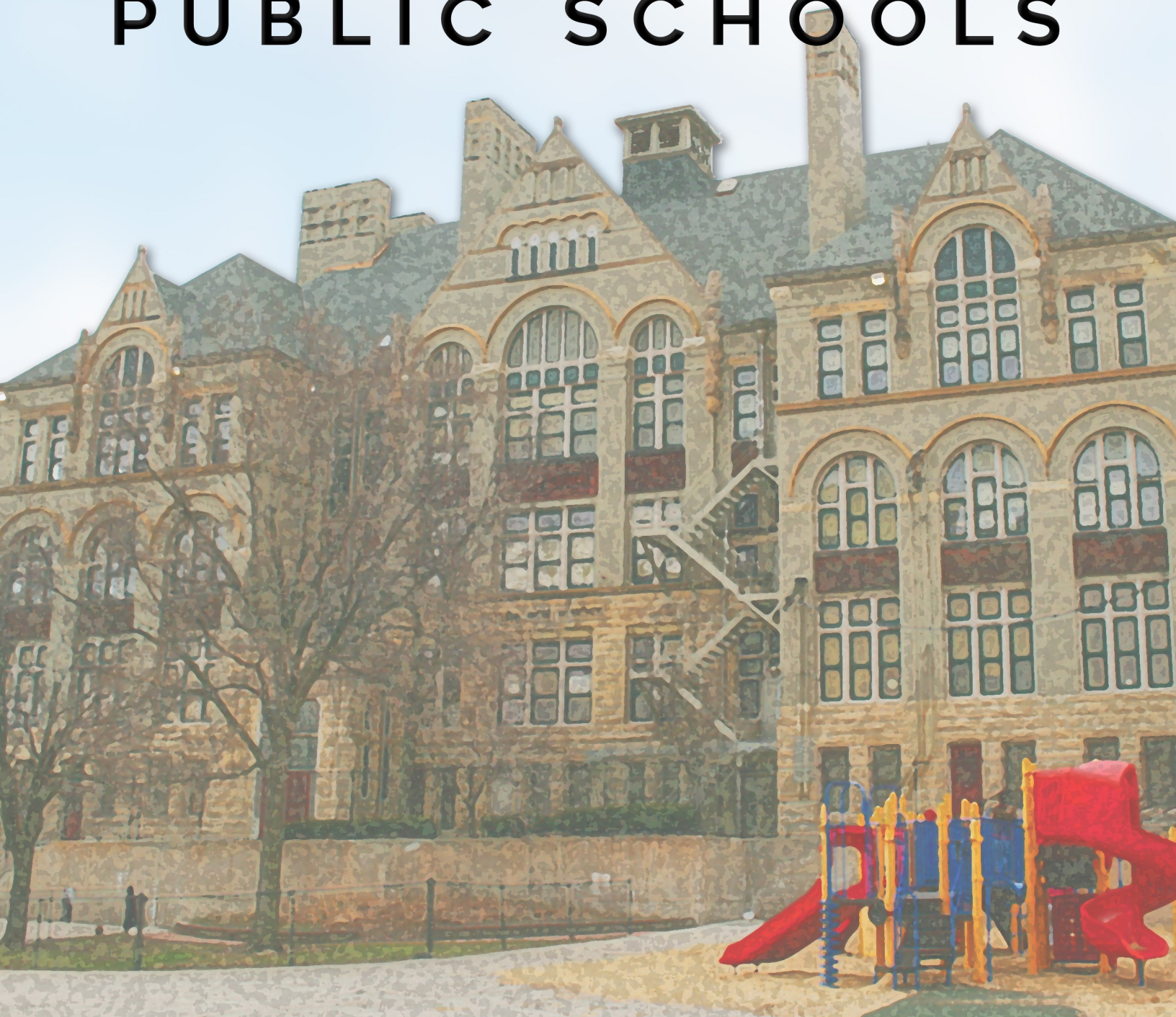


BUDGET BRIEF

2021 Proposed Budget

MILWAUKEE PUBLIC SCHOOLS



WISCONSIN

POLICY FORUM



BUDGET BRIEF:

*2021 Proposed Budget
Milwaukee Public Schools*

May 2020

REPORT AUTHORS:

Anne Chapman, Senior Researcher
Rob Henken, President

TABLE OF CONTENTS

Introduction	2
Budget Overview	4
Revenues.....	5
Expenditures.....	7
Keys to Understanding the 2021 Proposed Budget.....	9
Key #1: Raises drive budget but their full cost impact remains murky	9
Key #2: Referendum advances key priorities while financial challenges remain	11
Key #3: MPS still lacks a strategic facilities plan as facility needs grow	13
Key #4: The referendum has improved MPS’ fiscal outlook but by how much?	15
Conclusion.....	18

We would like to thank the Greater Milwaukee Foundation and Northwestern Mutual Foundation for their generous support of our education research.



Greater Milwaukee
FOUNDATION
greater together



Northwestern Mutual®

This analysis of the Milwaukee Public Schools’ 2021 proposed budget refers to the budget recently submitted to the Milwaukee Board of School Directors by the Milwaukee Public Schools superintendent. The budget covers the school district’s 2021 fiscal year, which takes effect on July 1, 2020, and runs through June 30, 2021. Also, it should be noted that while the School Board will adopt a tentative budget later this month and the fiscal year will begin in July, the budget will be revisited by the superintendent and board in the fall after the district receives final aid amounts from the State of Wisconsin. A final property tax levy amount for 2021 also will be established at that time.



INTRODUCTION

In most years, the budget proposed by the MPS superintendent each spring is an almost-complete blueprint for the upcoming fiscal year beginning on July 1. While it is subject to amendment at the school board level in May and additional tweaks once final state funding allocations are known in the fall, those modifications typically are minor when viewed in the context of a \$1.2 billion spending plan.

This is far from a typical year, however. Not only has the COVID-19 crisis thrown classroom planning for the next school year into a state of confusion, but the potential fiscal effects of the pandemic on the state's coffers and the uncertainty surrounding federal relief funds suggest rough waters ahead for school district budget planning. There is a positive element as well, as the referendum approved in early April has given MPS leaders \$57 million of extra revenue capacity with specific plans to spend the new money yet to be adopted.

One of the key questions for the superintendent and his budget team as they prepared the proposed budget was whether and how to accommodate those uncertainties. At least for now, the budget document does not address them. Instead, the budget proposed by the superintendent is a baseline budget that conveys how the district's fiscal picture would have looked *without* a global pandemic and the ability to exceed state revenue limits, while leaving up in the air for now decisions on how to respond to those highly consequential developments.

This baseline approach – while purely hypothetical – does provide important perspective that is critical to understanding MPS' overall financial condition. With only a minimal increase in revenues and the need to accommodate a new teacher and staff compensation framework approved last year, the budget again scales back central services, eliminating 42 non-school positions. It also resorts to several one-time budget actions to make ends meet, including the removal of \$9.3 million from a special reserve fund for salary adjustments and continued use of carryover funds to support major maintenance activities.

In a presentation to the school board shortly after the proposed budget's release, the superintendent did outline his proposed use of the \$57 million in additional property tax revenue the district will now realize as a result of the voter-approved referendum in April. About \$30 million of the total would be used for the general goal of "attracting and retaining certified educators," including the \$9.3 million mentioned above to replace the reserve withdrawal in the baseline budget for teacher pay increases approved last year. The ability to add these dollars to the budget provides new hope for the district, though that hope might be tempered by new budget holes created by the COVID-19 crisis.

In the following pages, we attempt to explain and provide insight into key 2021 budget decisions and circumstances, as well as MPS' long-term fiscal outlook. Our aim is to provide an independent assessment of MPS' finances that will encourage informed deliberations by policymakers in Milwaukee and the state Capitol.



BUDGET OVERVIEW

The superintendent’s proposed 2021 budget is a difficult document to analyze and digest. That is typically the case in light of the complexities associated with federal and state aid formulas and MPS’ variety of distinct funds. This year, however, it is more pronounced given that the biggest financial items that need to be addressed in the year beginning July 1 are fraught with uncertainty and were deliberately set aside in the initial budget document.

The first of those is a “good news” item: how to spend the additional \$57 million in property tax levy the district will receive from its recently approved authorization to exceed state-imposed revenue limits. As we will explain in this section, about \$9 million of that amount already has been spoken for in the budget, but the remaining \$48 million potentially could be used to fulfill the referendum’s stated purpose of “sustaining and expanding educational programming, including offering more career and technical education programs, attracting and retaining certified educators, and expanding art, music, and physical education, and language programs.”

That opportunity is countered by the possibility that the district’s state aids – which comprise about 72% of its school operations funding – could be cut as a result of the state’s immense financial challenges resulting from the COVID-19 crisis. As we discussed in a recent [report](#), the state is losing substantial amounts of revenue from sales and income tax collections, which may prompt consideration of a budget repair bill for the second year of the current budget (beginning July 1). Because K-12 aids are the state’s largest expenditure item, it would be difficult to shield schools from reductions if substantial state budget cuts become necessary. Moreover, to prevent a surge in local property taxes in response to potential state aid cuts, state leaders also could reduce school district revenue limits, which are based on combined property tax levies and general state aids.

The proposed budget does not contemplate these possibilities, which could be justified given uncertainty about whether additional federal relief funds may become available to shore up the state’s finances. On the other hand, the Wisconsin School Administrators Alliance has advised districts to model three distinct revenue limit and state aid scenarios for the coming year – including two involving cuts to provisions in current law for 2021 – given the likelihood of state budget repair action.¹ The proposed budget also does not account for any potential direct federal or state relief that MPS will receive to offset the impacts of the COVID-19 crisis while also not building in any additional crisis-related expenditures.

Below, we provide a synopsis of the major revenue and expenditure items that characterize MPS’ 2021 proposed budget. This should be recognized as a “placeholder” budget that will change significantly when the referendum monies are added and the impacts of the COVID-19 crisis become more clear. Detailed analysis of key budget items is provided in later sections.

¹ See Wisconsin School Administrators Alliance memo at <https://www.wsaa.org/wp-content/uploads/2020/04/COVID-19-Message-v3.0.pdf>



Revenues

The proposed budget includes only a \$2.8 million (0.2%) increase in total revenues when compared to the 2020 adopted budget. As shown in **Table 1**, the school operations fund – which is most directly related to instructional capacity and operations – would actually see a slight decrease, in part because of a proposed transfer of \$4 million from school operations to the construction fund to address a growing deferred maintenance backlog (see Key #3 later in this report). The extension fund would remain funded at the 2020 level, while the nutrition fund would see about a \$300,000 (0.5%) increase.

Table 1: MPS revenues by fund, 2020 vs. 2021 (in millions)

Fund	2020 Budgeted	2021 Proposed	2020 to 2021 % change
School operations	\$947.9	\$947.2	(0.07%)
Categorical	\$178.1	\$177.3	(0.5%)
Construction	\$2.6	\$6.6	151.7%
Nutrition	\$54.9	\$55.2	0.5%
Extension	\$32.7	\$32.7	0.0%
Total	\$1,216.2	\$1,219.0	0.2%

Source: MPS 2021 proposed budget

The foremost source of revenue supporting school operations is MPS' combined amount of state general school aids and property taxes. That amount is capped by a state-imposed revenue limit, which sets a ceiling for the combined total on a per pupil basis. Once the district's general aid amounts are determined by the state, it can levy property taxes up to the amount remaining until it reaches the per pupil cap.

The proposed budget contains \$797.1 million from these two sources, which comprises 84% of school operations revenue and represents a \$3.5 million decrease from the 2020 budgeted amount. Taking into account the \$4 million transferred to the construction fund, that means the revenue limit is affording the district just a \$500,000 increase in its 2021 combined general state aids and property tax levy across all funds.

At first glance, the marginal increase would appear puzzling given that the current two-year state budget contains a \$175 increase in the per pupil revenue limit in the first year and an additional \$179 per pupil increase in the second year. With an enrollment of roughly 75,000 students, it would have been logical to assume the district would see increases over 2019 amounts exceeding \$13 million in each year (assuming it levied up to the maximum amount of property taxes). Yet, it actually experienced a \$4.9 million decline in the combined total between the 2019 actual and 2020 budgeted amounts and the proposed budget only anticipates the \$500,000 increase in 2021.

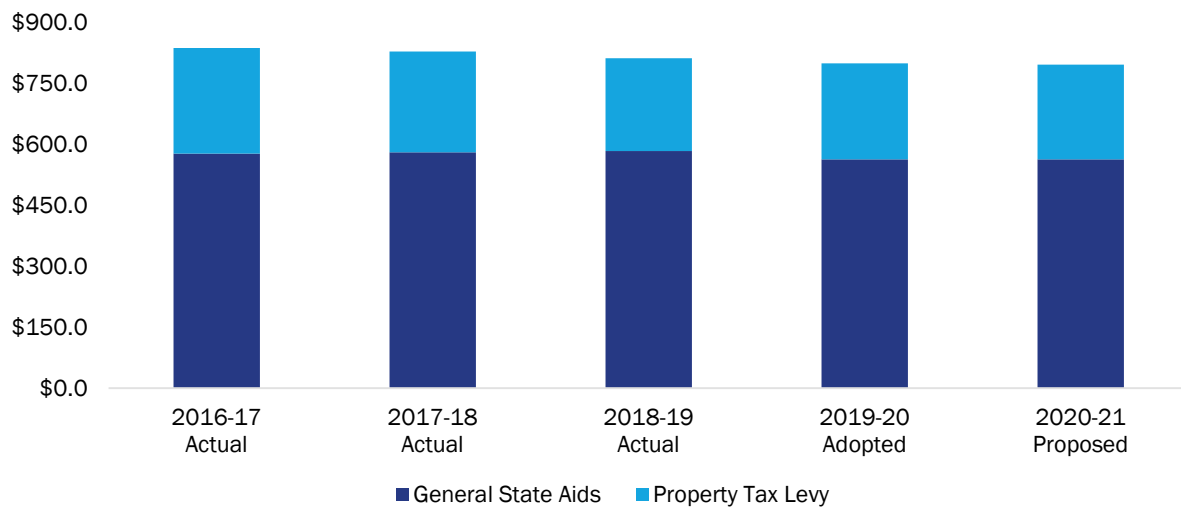
According to MPS budget officials, this anomaly stems from intricacies in the complex revenue limit calculation. A critical component of the calculation is student enrollment, with the per pupil limit linked to a rolling average of enrollment figures for the previous three years. According to MPS, the district lost 910 students from 2020 to 2021 based on the three-year rolling average calculation.



Another important factor is a “hold harmless” provision that ensures districts receive at least the same amount of revenue through the per pupil limit as the previous year. That provision worked to MPS’ advantage when the state did not allow for per pupil increases in the revenue limit, as was the case from 2016 through 2019. In those years, the district received hold harmless funding to help offset revenue losses resulting from enrollment declines, and the hold harmless stop-gap amounts essentially were built into MPS’ base revenue limit amount. With the per pupil limit now increasing in 2020 and 2021, the hold harmless funding has been removed, thus substantially offsetting the increase in allowable per pupil revenues that MPS would have received.

The bottom line is that without the additional \$57 million authorized by voters in April, MPS’ school operations fund again would have seen a decline in its foremost source of revenue. As shown in **Figure 1**, that is the predicament with which the district struggled in each of the previous four years.

Figure 1: Property Taxes and General State School Aids



Source: MPS 2021 proposed budget

There is some good news for MPS on the revenue front, as state special education aids are projected to grow by \$2.2 million. Federal grants targeted at low-income students and students with disabilities are projected to increase by \$1.4 million, and state grants for reducing achievement gaps for low-income students increase by \$1.1 million. However, those gains are partially offset by a \$2.4 million reduction in contributions from private sources.

Overall, the district’s revenue picture for 2021 as conveyed by its base budget can best be characterized as status quo. For a district with manageable expenditure pressures, that would not be too problematic. However, given MPS’ considerable school-based needs, COVID-19-related fiscal uncertainties, and its financial obligations with regard to its new compensation structure, the district would have faced a dire situation if not for its newly approved ability to exceed the state revenue limits.



Expenditures

For the third consecutive year, the superintendent’s proposed budget emphasizes keeping school budgets whole. In fact, as shown in **Table 2**, schools receive a \$22.1 million (2.4%) increase, which means that central offices and non-school accounts must take a hit in light of the district’s flat revenues in the base budget.

Table 2: MPS expenditures by department, 2020 vs. 2021 (in millions)

Expenditures	2020 Budgeted	2021 Proposed	2020 to 2021 % Change
Schools	\$931.6	\$953.7	2.4%
Central Offices	\$220.4	\$215.5	(2.2)%
Other Accounts	\$73.3	\$60.5	(17.5)%
Inter-department & Inter-fund	(\$9.1)	(\$10.6)	(1.5)%
Total	\$1,216.2	\$1,219.0	0.2%

Source: MPS 2021 proposed budget

The increase in spending for schools is linked primarily to the need to accommodate salary increases that were approved by the Board of School Directors last year as part of a new teacher and staff compensation framework (see Key #1). The 2021 budget must accommodate not only cost-of-living and progression increases approved for 2020 (which were only partially built into the 2020 budget), but also similar increases for 2021. According to budget officials, the collective impact is a need for about \$26 million in additional spending in the 2021 budget. Schools also benefit from an increase of 25 positions (0.3%).

As has been the case in the previous two budgets, the overall central offices budget sees its funding and positions reduced to preserve resources for schools. The \$4.9 million (2.2%) reduction in central offices shown in **Table 2** results largely from cuts in School Administration (\$4.7 million) and Academics (\$5.7 million). Those reductions are overstated, however, as roughly \$4 million of the reduction to School Administration is attributed to the loss of a one-time grant for school safety, and the reduction in Academics results (in part) from a reorganization that shifts several positions to Communications and School Performance. Nevertheless, central offices as a whole would see a net reduction of 42 positions (4%), including 19 in Facilities and Maintenance and 21 in specialized services (which primarily supports special education programming).

Finally, the \$12.8 million reduction shown in “Other Accounts” is worthy of explanation, as it is a key to understanding how the 2021 proposed budget is balanced. About \$10.7 million of that total stems from a reduction in a special contingent fund related to salaries, with about \$1.4 million of that amount attributed to an assumption that greater savings will result from vacant positions.

More significantly, the fund reduces a set-aside for compensation increases by \$9.3 million in anticipation of a decision by the School Board to use at least that amount from the \$57 million provided by the referendum to help pay for the compensation changes approved last year. While the reserve has been reduced, the \$9.3 million has not yet been added to the salaries line in the base budget, which makes overall salary expenditures appear artificially low. This move – while not



inappropriate from a fiscal standpoint – is not explained in the budget document and may confuse consideration of the funds available from the referendum to allocate to district priorities.

Table 3 breaks down proposed 2021 expenditures by spending categories and shows that dynamic. The significant increase in salaries discussed above is not reflected here, in part because of the reduction in contingency funds described above and the fact that monies to be added to the salary line to reflect the new compensation structure are contained in the separate referendum proposal. Also, MPS' fringe benefit expenditures are projected to decline by \$500,000, as health care costs are expected to come in lower than budgeted for 2020, with the positive fiscal impact carried over into 2021 to offset the impact of inflationary increases in medical and pharmacy costs. Finally, the net decline of 17 positions in the budget helps hold down overall salary and benefit costs.

Table 3: MPS expenditures by category (all funds), 2020 vs. 2021 (in millions)

Expenditures	2020 Budgeted	2021 Proposed	2020 to 2021 % Change
Salaries & Benefits	\$807.0	\$810.4	0.5%
Purchased Services	\$296.7	\$298.3	0.5%
Debt Service	\$36.9	\$35.4	(4.1%)
Supplies	\$65.2	\$61.8	(5.2)%
Capital Expenses	\$3.8	\$4.2	10.5%
Other	\$6.6	\$8.9	34.8%
Total	\$1,216.2	\$1,219.0	0.2%

Source: MPS 2021 proposed budget

An important factor for observers to remember when considering MPS' options for controlling expenditures is that the state school aids formula is, in part, based on prior year spending levels. This means that districts like MPS can lose state aids the year subsequent to any major cost cutting initiative, effectively creating a penalty on the revenue side.

In the next section, we provide more detailed analysis of key revenue and expenditure items that drive MPS' budgetary decision-making for 2021.



KEYS TO UNDERSTANDING THE 2021 PROPOSED BUDGET

Key #1: Raises drive budget but their full cost impact remains murky

Last spring, MPS leaders agreed to develop a plan to overhaul the district's compensation structure to provide annual salary increases to almost all MPS teachers and staff. According to budget officials, the plan's implementation along with smaller salary-related effects will increase costs by approximately \$26 million in the 2021 budget. The impact of the plan is impossible to detect in the proposed budget, however, which counts on unbudgeted proceeds from the April school funding referendum and lowered reserves to finance the increase.

Why this matters

As past Forum budget briefs have pointed out, personnel-related costs, especially salaries, are central to MPS budget planning every year. As with any school district, MPS' ability to carry out its mission rests primarily on human resources – teachers and staff with the skills and relationships to effectively serve the district's approximately 75,000 students.

Salaries and wages comprise the district's largest expenditure category by far – 43% of the total 2021 budget. Moreover, MPS' challenges prior to the current crisis have been particularly intense with regard to attracting and retaining high quality teachers given what has been a competitive regional teacher labor market. District officials say prospective and current MPS teachers often are lured to suburban schools, largely on the basis of better compensation.

MPS' flat revenue streams and other well-documented fiscal challenges have severely limited its ability to invest in compensation, programming, or facilities initiatives to improve the district's competitiveness for both enrollment (which drives revenues) and teacher recruitment and retention. Nevertheless, believing that something had to be done to address the district's compensation issues, last spring the MPS board gave the go-ahead to revamp the compensation schedules of virtually every MPS employee. The new salary schedules are being developed and implemented in three phases over the course of the latter half of 2020 and were included as a specific budget parameter guiding the development of the 2021 budget.

The decision to develop a new compensation framework came during school board deliberations after the superintendent submitted his proposed budget last spring. The proposed 2020 budget originally included a 2.44% cost-of-living salary increase for most MPS employees and added 108 positions, most of which were in schools. While the proposed budget limited the increased costs of salary and fringe benefits to 1.3% and 3.3% respectively, the combined increase still amounted to \$15.7 million.

The salary schedule overhaul approved during the 2020 budget process did not cite estimates of the cost of full implementation either in the near or long term. The district's five-year budget projections provide a clue, however, as they show an increase over 2021 in salaries and wages of \$76.4 million

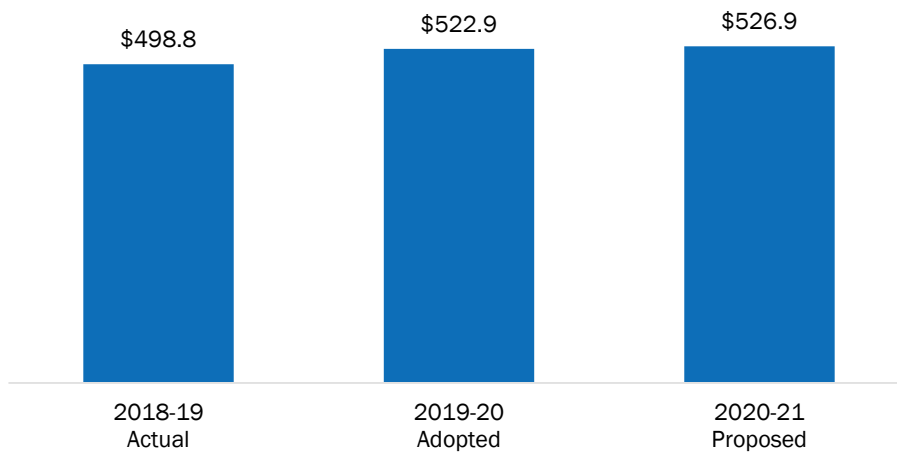


(17.3%) by 2024. District officials say the new salary structure is driving both this increase and an overall projected increase of \$120 million in the school operations fund.

One would have expected the significant jump in salaries to be reflected in the 2021 proposed budget as full implementation of the new salary schedules occurs. It also would have been logical to expect the base budget (which does not include the referendum monies) to show either revenue increases or expenditure cuts to accommodate the changes.

The 2021 proposed budget provides little clarity on either of these points, however. Budget officials cite an increased 2021 salary cost of approximately \$26 million, which includes raises that accompany each additional year of service through the new salary step schedule as well as an across-the-board cost-of-living increase of 1.81% (tied to the Consumer Price Index). That figure also accounts for a net loss of 17 positions district-wide. However, only \$4.0 million is plugged in as the increase on the actual salary line of the proposed budget, as shown in **Figure 2**.

Figure 2: MPS Proposed Salary Increase (in millions)



Source: MPS 2021 proposed budget

How, then, does the district account for the remaining \$22 million? As we explained in an earlier section, according to MPS budget officials, a small portion, \$1.4 million, comes from increasing an offset used to account for unanticipated vacancies that will occur during 2021. Another \$9.3 million is accounted for by reducing a reserve fund for raises, with a corresponding expectation that the \$9.3 million will be added back to the salaries line from the \$57 million in additional revenue realized from the April referendum. That still leaves a gap of \$11.3 million in the additional salary cost that is not readily discernible in the budget.

As discussed earlier, MPS officials elected not to include the \$57 million from the referendum in the proposed budget, and the budget document states instead that “referendum funding will be presented in a separate document in order to allow for full transparency.” That document includes a \$25.5 million line item for “attracting and retaining staff” that presumably will allow the district to add the \$9.3 million plus fill at least some of the remaining gap, but that is not explicitly explained.



Assuming the referendum proceeds are the funding source for salary increases in 2021 that are not already reflected in the 2021 base budget, this further blurs understanding of how referendum monies are being spent (see Key #2 for further discussion of the referendum plan). It also makes it difficult for MPS stakeholders and the public to accurately assess the impact of the new salary structure on MPS finances.

Finally, this situation raises questions as to what MPS would have done to accommodate the new salary structure had the referendum not passed. The \$76.4 million increase in salaries projected to accrue by 2024 would consume almost 90% of the \$87 million in additional revenue limit authority the district will have at its disposal by that time as the referendum's tax increases are fully implemented. **Without those funds, it is difficult to comprehend how the district would have financed its new compensation structure.** Moreover, now that the referendum has passed, it could be asked why MPS officials were not more explicit in citing the need for the extra revenue capacity to finance salary increases that already had been adopted.

In successfully implementing a comprehensive salary structure that gives virtually all MPS staff a more predictable career compensation ladder, the district is taking decisive action to address one of its fundamental challenges – attracting and retaining talent. The concern is that it did so without fully explaining the challenges involved with paying for or sustaining the new structure. As additional referenda monies become available in each of the next three budget years, district leaders should consider enhanced clarity surrounding how those resources will be invested and how they affect the district's fiscal sustainability.

Key #2: Referendum advances key priorities while financial challenges remain

The superintendent's proposal for spending the \$57 million in additional property taxes authorized by the April referendum in the first year includes strategic investments to set up the youngest students for success, stabilize the teaching workforce, protect mental health and social emotional learning, and improve equitable access to in-demand educational opportunities. However, the magnitude of the district's true programmatic needs, its structural fiscal challenges, and the ongoing COVID-19 response threaten the proposal's sustainability.

Why this matters

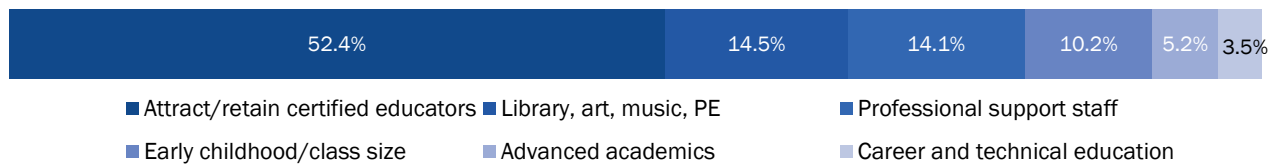
The April 2020 referendum approved by Milwaukee voters gives MPS authority to levy property taxes that exceed its state-imposed revenue cap by \$87 million on a recurring basis. The extra revenue capacity will be phased in over four years, beginning with \$57 million in additional levy authority for 2021.

Community input helped guide the decision to apply referendum proceeds to direct services to students rather than capital needs. The vast majority of planned spending, almost 90%, would support compensation for current staff and almost 230 additional positions and includes increased spending on salaries, benefits, and professional development. The new positions would come on the heels of almost 100 positions added in 2019, which itself was the largest boost in staffing in recent memory. The remaining dollars cover materials, supplies, and instruction-oriented facilities improvements.



As shown in **Figure 3**, over half (\$29.9 million) of the \$57 million would fund an item labeled as “attracting and retaining certified educators,” with most of that total (\$25.5 million) funding the previously approved teacher salary schedule. Another \$8.3 million would add almost 80 positions to help expand and equalize access to art, music, physical education, and library staffing and programming. A similar-sized investment would add 72 positions like nurses and counselors to support social emotional learning, almost \$6 million would increase early childhood teacher ranks, and about \$5 million would expand specialized learning opportunities like career and technical education, advanced placement, and world languages.

Figure 3: Percent distribution of proposed 2021 MPS referendum spending (\$57 million) by priority area



Source: MPS Superintendent’s Budget Overview Presentation

While the additional \$57 million in referendum funds obviously would provide for significant enhancements in staff and learning resources, the infusion also should be viewed in the context of MPS’ overall 2021 proposed budget and positions. As a share of the total \$1.2 billion budget, the \$57 million represents 4.6%. The district has indicated that all of the monies would be used in the school operations fund, where spending levels would increase by 6% once referendum monies are added. From a personnel standpoint, the referendum allows the district to add 229.5 school-based positions, or 2.4% over the total budgeted FTEs for 2021.

However, while relatively limited in that context, **the referendum monies do give the district welcome breathing room to “reinstitute service levels”² on a number of important priorities and in-demand programs where MPS has lost ground over the years.**

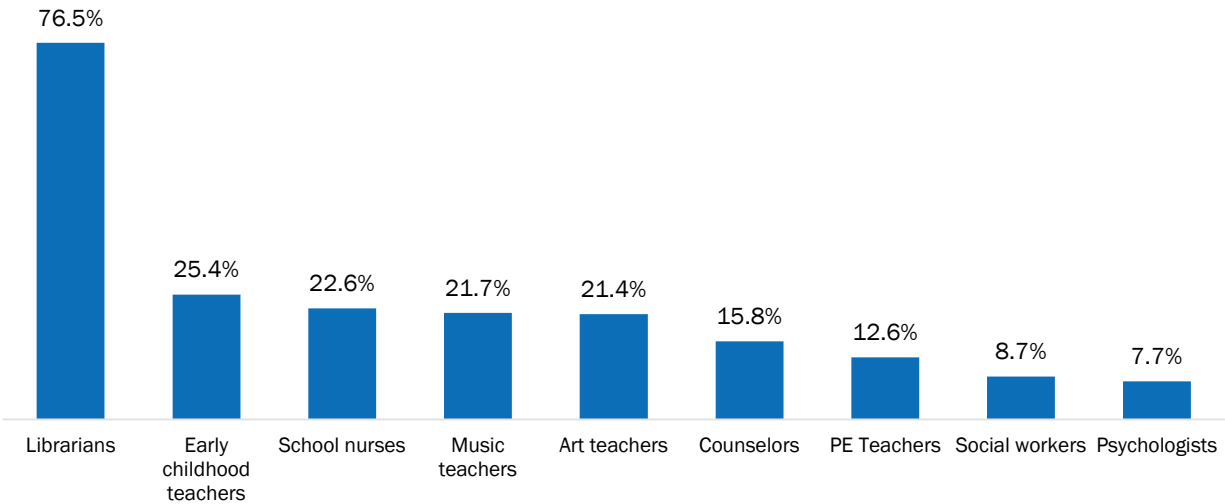
The district solicited stakeholder input to determine six specific priorities in which to target new resources. From this perspective, proposed referendum allocations appear more consequential. For example, the combined \$8.3 million proposed for art, music, and physical education teachers and school librarians represents a 34.6% increase over the proposed appropriation in the 2021 base budget. Similarly, the referendum plan would boost spending by \$3.0 million (17.2%) on advanced academics, a term that refers to a variety of specialized and in-demand learning opportunities such as advanced placement, world languages, and Montessori seats.

Viewing the referendum’s proposed increases for educator positions shows similar patterns of concentrated resources. Notably, the proposed addition of 15 library media specialists represents a 77% increase over the number of such positions cited in the budget. The referendum proposal includes a number of other staffing changes that would be sizable if added to the main budget. The impact of such additions for selected staffing categories appear in **Figure 4**.

² From remarks by MPS Chief Financial Officer during May 7, 2020 meeting of the school board’s Committee of Strategic Planning and Budget.



Figure 4: Selected categories of additional FTE proposed for referendum monies as % of 2021 budget allocation



Source: 2021 Proposed Budget and MPS Superintendent’s Budget Overview Presentation

In specific targeted areas, referendum allocations represent meaningful infusions of resources and skilled educators. However, MPS stakeholders should be aware that the referendum boost will not be enough to catapult the district out of its long-standing fiscal challenges, which include not only its flat revenue streams, but also fierce expenditure pressures related to salaries, benefits, and a student population with a variety of special needs related to poverty, trauma, racism, disability, and English language proficiency. Indeed, last fall, a community task force asked district leaders to lay out what it would cost to provide a “gold standard’ education aligned with best practices designed to ensure students’ needs are met.”³ The price tag was almost \$640 million, more than seven times the size of the annual referendum-related revenues once they are fully phased in.

Moreover, in addition to its perennial challenges surrounding inflationary growth in fixed costs, lagging revenues, long-term facility needs, and dwindling reserves, the district faces hazards ahead as it navigates the operational challenges posed by the COVID-19 outbreak and the drop in state revenues that may result in cuts to schools. This referendum money, finite though it may be, could serve as a life raft rather than the instrument of district renewal some might have envisioned.

Key #3: MPS still lacks a strategic facilities plan as facility needs grow

In our past four budget briefs, we have discussed a concern that the district has committed only minimal property tax levy to the construction fund as it has sought to devote sufficient property tax resources to school operations. For 2021, MPS has begun to address that concern by transferring \$4 million of property tax levy from school operations to the construction fund. While this is a start, it still leaves the district far short of the resources it will need in the longer term to address its existing maintenance backlog and future facility needs.

³ Milwaukee Public Schools Community Task Force Report. December 12, 2019.



Why this matters

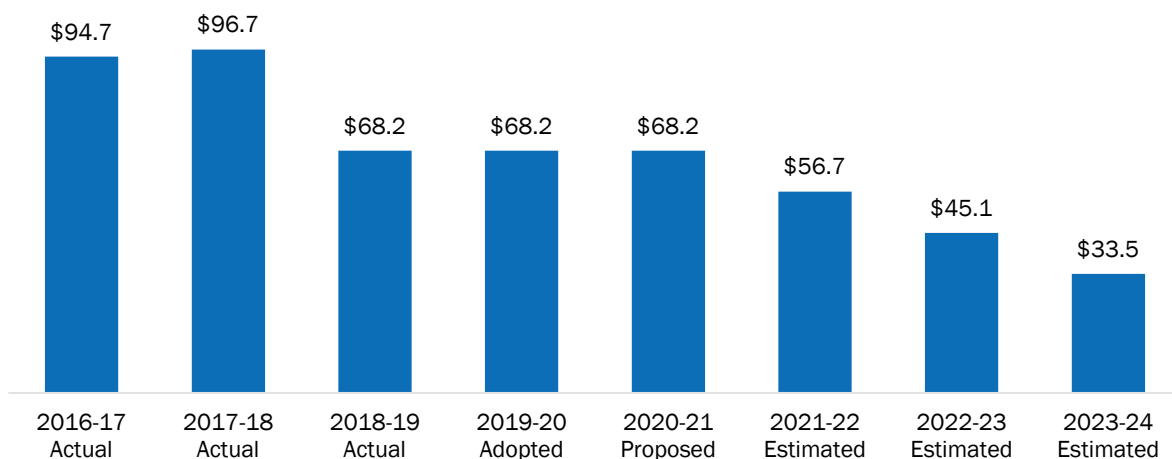
MPS budgets for its annual facility needs both through its construction fund and its Department of Facilities and Maintenance in the school operations fund. The construction fund receives annual budget appropriations and also houses bond proceeds, which can be carried over for use over several years. It is used mainly for major maintenance costs and larger capital improvement projects at school buildings, while *basic* repair and maintenance activities and costs are financed through the school operations fund under the facilities and maintenance department.

Because MPS owns dozens of older buildings (the budget cites an average age of 76.4 years), the district faces a growing need both for comprehensive building improvements and regular, ongoing facilities maintenance. Unfortunately, both areas have been challenged in recent years in light of the district's fierce fiscal challenges and its efforts to stave off cuts to schools.

The construction fund – which received a property tax allocation of \$10.6 million as recently as 2016 – received \$1.5 million or less in three of the last four years. Fortunately, the district has more than replaced those dollars with unused bond proceeds, first from borrowing authorized by the 2009 federal stimulus bill and then from \$34.9 million in bonds issued in 2017 for major maintenance projects.⁴

MPS has made steady use of those borrowing proceeds to supplement its reduced property tax levy allocations, with actual expenditures from the construction fund totaling nearly \$40 million in 2018 and \$33 million in 2019. However, the fund balance in the construction fund is shrinking as prior year bond proceeds are spent, as shown in **Figure 5**. That means the district soon will need either to engage in new borrowing, significantly increase its property tax allocation to the fund, or both. As shown in the chart, for now the district is anticipating that it will spend down its fund balance by about \$11.6 million per year through 2024.

Figure 5: MPS Construction Fund Balance



Source: MPS 2021 proposed budget

⁴ MPS does not have statutory authority to issue debt but instead relies on the city of Milwaukee to issue debt on its behalf under an intergovernmental agreement. Debt service payments are the responsibility of MPS.



The pressure to spend more on capital assets stems not only from the age of MPS' facilities, but also from a glaring need to "right size" its physical footprint, both to foster efficiencies that will cut costs over time and to optimize learning environments. The proposed budget notes that 42 schools are "significantly" underutilized, as evidenced by "efficiency" ratings (which compare students to space) of less than 70%. Meanwhile, another 42 schools have efficiency ratings of more than 110%, which indicates over-crowdedness. There are also needs for building improvements across the district, with the budget noting that "many buildings may have difficulty meeting the district's goal of offering schools that provide 21st-century learning opportunities and support the needs of diverse learners."

The proposed budget takes a step toward addressing this challenge with its reallocation of \$4 million in property tax levy from school operations to the construction fund, which would receive \$6.6 million in new appropriations in the proposed budget (\$5.5 million in levy and \$1.1 million from rental revenues and other sources). The district also plans to use prior year bond proceeds to again boost the actual amount spent on capital improvements and major maintenance in 2021.

Nevertheless, it is noteworthy that despite the infusion of \$57 million from the referendum into school operations and a growing backlog of capital needs that officials say approaches \$180 million, the district only chooses to free up an extra \$4 million for the construction fund in 2021. This concern is magnified by the reduction of 19 FTEs in the Department of Facilities and Maintenance, which could hamper the district's ability to address minor maintenance needs, thus potentially increasing the volume of major repairs needed over the long term. Also, according to budget officials, the position reductions were kept to 19 only by virtue of a decision to delay certain capital expenditures for another year.

In determining their strategy for the referendum, district leaders opted to pursue extra dollars for operating needs and to leave their daunting capital questions unanswered. The 2021 proposed budget similarly provides only a "placeholder" on the capital side and is silent on a long-term strategy for future borrowing.

While we are not questioning the decision to pursue an operating referendum, it would appear that development of a comprehensive capital plan is needed soon. Such a plan, ideally, would lay out how the district plans to consolidate its footprint in keeping with its declining student enrollment, establish its capital improvement priorities for at least the next five years, and identify the resources required to address those priorities and its overall capital needs. A key to gaining support from stakeholders who hesitate to divert resources from school operations will be to clearly communicate the need to balance short- and long-term fiscal needs and how investments in facilities would generate cost savings and efficiencies over time.

Key #4: The referendum has improved MPS' fiscal outlook but by how much?

The proposed budget's five-year fiscal projection for the school operations fund shows that the gap between MPS' projected revenues and expenditures if nothing changes will grow to \$139.4 million by 2024. The good news is that the five-year projection does not take into account the additional revenues from the April referendum. The bad news is that it also does not account for additional expenditures that will result from the referendum's passage. Ultimately, it appears that while the authority granted by voters to exceed state-imposed revenue caps by \$87 million will help, it still will



fall well short of filling MPS' structural gap even before the district experiences any additional challenges from a possible state budget repair bill and other factors related to the COVID-19 crisis.

Why this matters

As discussed throughout this report, MPS' 2021 budgetary outlook would have been even more challenging than most years if not for the ability to exceed the state revenue limit by \$57 million. In keeping with the intent of the referendum and how it was represented to voters, district leaders for now propose using the funds to add resources to stated priority areas, including significant sums for previously-approved compensation increases for teachers.

Unfortunately, in light of intensifying revenue challenges in other areas and its ongoing salary and benefit pressures, MPS may find itself only modestly better off after the referendum is phased in than it was when it took the proposal to voters.

Per the terms of the referendum, MPS' authorization to exceed state revenue limits grows from the \$57 million in 2021 to \$77 million in 2022, \$84 million in 2023, and \$87 million 2024. As shown in **Table 4**, when we plug those revenues into the five-year projections for school operations contained in the proposed budget, the original gap shrinks, but still remains at \$52.3 million (as compared to the \$139.4 million originally projected) in 2024.

Table 4: MPS school operations fund five-year budget projection with added revenue limit capacity (in millions)

Category	2021 Proposed	2024 Estimated	% Change
Revenues			
Base revenues	\$947.2	\$927.9	(2.0%)
Referendum-based extra capacity	\$57.0	\$87.0	52.6%
Total revenues	\$1,004.2	\$1,014.9	1.1%
Expenditures			
Salaries/other wages	\$414.8	\$489.5	18.0%
Benefits	\$225.7	\$257.5	14.1%
Purchased services	\$236.5	\$238.9	1.0%
Other	\$70.2	\$79.2	12.8%
Total expenditures	\$947.2	\$1,067.2	12.7%
Surplus/(Deficit)	\$57.0	(\$52.3)	

Source: MPS 2021 Proposed Budget, WPF calculations

As if that projection is not disconcerting enough, it should be noted that the expenditure estimates shown in the table do not include any costs for *new* items above the original baseline projection that are anticipated per the referendum, such as additional physical education, music, art, language, and career and technical education teachers. The \$74.7 million increase projected currently for salaries and wages and a portion of the \$31.8 million increase in benefits instead is attributed to the new compensation framework approved last year.

It is important to recognize that the five-year projection is laden with assumptions – virtually all conservative – on state revenue limits and amounts of other state and federal aids. It also does not



account for the specific actions the district will take in each budget to bridge any annual gap, the savings from which will carry into future years if not one-time in nature. Nor, however, does it account for unpredictable cost pressures associated with the COVID-19 outbreak or other new developments.

Consequently, whether projected at \$139 million or \$52 million, the projection should be viewed as an indicator of how the gap between projected revenues and expenditures may grow in the absence of action, but not as an actual deficit projection. Nevertheless, such projections give important insight into the causes and potential size of MPS' structural deficit and should be taken seriously.

The explanation of why the \$87 million infusion from the referendum does not place the school operations fund on firmer financial footing begins with the district's revenue projections. As discussed earlier, the combination of state general school aids and property tax levy that is capped by state revenue limits is the school operations fund's largest funding source. This combination – plus other state aids – comprise 96% of the fund's total revenues in 2021 per the proposed budget.

The five-year school operations fund projection assumes that total state aids and property taxes will decline over the period, falling \$18.7 million (2%) from \$913.4 million in 2021 to \$894.7 million in 2024. A major contributor is the phase-out of the state's Chapter 220 integration program, which has been accompanied by an Integration Aids payment to MPS that is budgeted at \$30.3 million in 2021 (down \$4.9 million from 2020). The state ended new enrollment in the program in 2016, which means both enrollment and aid payments are phasing out as enrollees in various grades at the time graduate. The major financial hit to MPS will not occur until 2023 or 2024, as the state agreed to delay the full phase-out of aid payments until the district had paid off its debt for the Neighborhood Schools Initiative. The net revenue loss to MPS – when other factors like the reduced transportation costs are included – will be an estimated \$24 million. Meanwhile, the five-year projection assumes that the state revenue limit and its formula will be largely unchanged.

In the meantime, school operations spending is projected to grow by \$120 million from 2021 to 2024, thus accounting for the sizable gap. According to the proposed budget, the “primary driver” of the expenditure increase is the new compensation framework.

Plugging in the \$87 million from the referendum obviously will improve the situation substantially, and would put the district on a reasonable path toward balanced budgets if even inflationary increases in revenue limits and state and federal aids materialize, enrollment grows, or cost efficiencies in areas like transportation and health care are implemented. However, it is also possible that state aids and revenue limits might be reduced in the wake of the COVID-19 crisis, or that district leaders may deem it inappropriate to raise property taxes (even if allowed to) given the cost of the referendum and onset of recession. There is danger that those factors – combined with increased crisis-related costs – could completely negate the positive impacts of the referendum.

Putting aside uncertainty regarding state and federal aids, perhaps most important is what the projections reveal about MPS' hopes to use referendum monies to substantially *enhance* its school offerings in areas like career and technical education, art, music, and physical education. As noted above, the five-year projections do not include both the extra revenues authorized by the referendum *and* any proposed new expenditures on added staff and other program enhancements. While MPS leaders justifiably plan to move forward with most of those new expenditures in 2021, doing so may further hamper the district's long-term outlook and ultimately may be very difficult to sustain.



CONCLUSION

The MPS superintendent's 2021 proposed budget is a reasonable starting point for what promises to be a long and tenuous budgetary journey with still-to-be determined challenges of unknown severity. The base budget again establishes the clear priority of keeping schools whole, which given the district's flat revenue streams (pre-referendum) necessarily dictates cuts in central services and deferral of maintenance and capital needs.

As we have pointed out in our last several budget briefs, this is an unsustainable but understandable course given the district's academic challenges and the needs of its underserved student population. And, at first glance, it appears to be a well-taken gamble given the overwhelming support of voters in April for \$87 million in additional revenue authority above the state-imposed caps. Ideally, with this amount of extra funding, the district would be positioned to address some of its lingering non-instructional challenges while also fulfilling the referendum's stated intent of expanding MPS' teacher and specialist workforce to address key educational and service-related priorities.

Unfortunately, it is difficult to determine from the proposed budget whether this ideal state can be reached, as the budget blurs the use of referendum monies for new initiatives with the financing of a revised compensation framework approved last year. Further, there is no explanation regarding the multi-year cost of those salary changes and the lasting impact on both the 2021 and future budgets.

Also, while district leaders cannot be blamed, the budget fails to address the COVID-19 pandemic's likely impacts on the learning outcomes of the district's most vulnerable students, namely English learners, students with disabilities, students of color, and those experiencing poverty. Many MPS students, like those [across the state](#), have experienced barriers with regard to access to devices, internet connectivity, learning materials, and teacher-led virtual instruction. Those students, many of whom were struggling to meet learning targets before the crisis, may now fall further behind. MPS will be called on to address these learning disparities as well as the possibility of increased student mental health challenges resulting from the crisis.

All of these factors now call into question whether the gains in art, music, physical education, language, career and technical education, and other highly sought-after offerings promised by the referendum can be realized over the long term. Or, is it now possible that pandemic-related revenue reductions and cost increases, phased-out Integration Aids, and the continued impacts of the justifiable but expensive compensation modifications soon will exhaust those resources? An equally important question is whether, in either case, MPS will possess the financial capacity to address its facility needs.

There is still too much uncertainty surrounding the global pandemic and its impacts on MPS' operations and finances to fault its leaders for not yet providing answers to those questions. However, it will be incumbent upon them to both delineate and address them as the 2021 budget continues to be shaped through the fall and as the referendum monies are fully realized over the next four years.

