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Uncertainty Ahead: School Finances in the Face of COVID-19
District reserves in stronger position, but new costs and potential state aid cut loom

In drafting next year’s budgets, Wisconsin K-12 districts face uncertainty as to whether and how schools will open this fall and whether the drop in state tax collections will mean a cut in state school aids.

Though schools have built up their reserves in recent years, any impact to state aid could hit districts particularly hard given that they rely on state assistance more than other local governments in Wisconsin.

Districts here also depend more on state aid and less on property taxes and other local revenues than districts nationally, according to a new report from the non-partisan Wisconsin Policy Forum report. U.S. Census Bureau data show state payments make up 53% of the total revenues for Wisconsin districts, compared to just 47.1% for districts in the country as a whole.

In addition, districts such as the Milwaukee Public Schools (MPS) with the most underserved students generally depend the most on state aid because of their lower property values.

DPI data show MPS receives 62.6% of its instructional fund revenues from state aid, according to state Department of Public Instruction data. The share of state aid is also high in many other urban districts such as the Janesville schools (65.7%). The same can be true in rural districts as well.

Districts with higher property values receive less state aid and rely more heavily on property taxes. For example, the Madison school district receives only 23.3% of instructional fund revenues from state aid and the Waukesha school district receives 41.6%.

The potential loss in aid comes as districts are taking on added costs for computers, virtual learning platforms, software licenses and other technology, and old-fashioned copier costs as they seek to provide students with what they need to learn at home and online. Some schools have also had to spend money to ensure hotspots or other forms of internet access are available to students living in poverty or in regions where it is not available.

Other potential expenses include additional cleaning work and supplies and protective equipment for staff. High-poverty districts may also be incurring unanticipated and unreimbursed costs to provide meals to students and their families during school shutdowns.

In one bright spot, the most recent available statewide data from the Wisconsin Department of Public Instruction show that as of June 30, 2018, the state’s 421 districts had $1.78 billion in total instructional fund balances that were unassigned, or not restricted or set aside for specific purposes. This amounted to 17% of the $10.48 billion in spending out of these funds by districts statewide during the 2017-18 school year.

This puts districts on stronger footing than on June 30, 2012, when districts had a total of $1.38 billion in unassigned balances in these instructional funds, or 14.4% of spending.
However, these fund balances should not be seen as cash resting in place in districts’ bank accounts. They represent assets minus liabilities at a given point in time and many districts will see lower balances at other points in the year such as the fall.

Besides cash, the assets also include substantial receivables in the form of outstanding property taxes and state aid and property tax credit payments that are due to districts on June 30 of each year but not yet in hand.

Finally, it’s important to note these balances represent a one-time source of funds. By their nature, they cannot offset an ongoing loss in revenue or increase in costs.

A review of the state’s 20 largest districts shows that most started the 2019-20 school year with healthy balances, but funds also varied widely by district. MPS, for example, expected to close the current school on June 30 with a balance of only $32.4 million, or 3% of spending, and that was before the impact of the current crisis.

The recently approved $87 million referendum will help the state’s largest district going forward. But MPS’s heavy reliance on state aid and its lack of reserves could exacerbate the challenges ahead.

As past Forum research has noted, the scope of this economic crisis is likely to outstrip what any state can address on its own, making the question of a federal response all the more consequential. In addition, districts also have to consider extraordinary steps to assist students impacted by the pandemic.

“All of this leaves district officials shouldering immense uncertainty as they consider their preliminary budgets for the school year beginning this July and decide how many teachers to hire for the fall,” the report reads. “At a time when K-12 schools are considering how to get their students back to ‘normal,’ local leaders may need to grapple with budget cuts that could further impact the classroom.

Go here to read “Uncertainty Ahead: School Finances in the Face of COVID-19.”