BUDGET BRIEF

OPPORTUNITY AND UNCERTAINTY

An Early Look at the 2022 Budgets of Wisconsin’s Two Largest School Districts
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May 2021

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

This analysis of the Milwaukee Public Schools’ and Madison Metropolitan School District’s 2022 proposed budgets refer to the budgets recently submitted by the two superintendents to their respective school boards. The budgets cover the school districts’ 2022 fiscal year, which takes effect on July 1, 2021, and runs through June 30, 2022. Also, it should be noted that while both school boards will adopt tentative budgets later this spring and the fiscal year will begin in July, the budgets will be revisited by the superintendents and boards in the fall after the districts receive final aid amounts from the State of Wisconsin. A final property tax levy amount for 2022 also will be established at that time.
INTRODUCTION

Since 2013, the Wisconsin Policy Forum has produced an annual report on the superintendent’s proposed Milwaukee Public Schools (MPS) budget that analyzes and describes the key elements and provides an independent assessment for school board members as they deliberate its contents. Last year, for the first time, we produced a similar budget brief for the Madison Metropolitan School District (MMSD).

This year, because of several unique circumstances, we alter our approach to consider the budgets of Wisconsin’s two largest school districts in a single report. One reason is the vast uncertainty that surrounds both proposed budgets. MPS and MMSD each will receive huge new infusions of federal dollars from recently adopted pandemic relief packages, but there is still some murkiness surrounding allowable uses of those dollars and they have not yet been plugged into the superintendents’ proposals.

Moreover, state lawmakers have not yet determined whether or how the infusion of federal aid will impact their decision-making on state K-12 aids and revenue limits in the next state budget, thus also casting a cloud of uncertainty over the districts’ state and local revenue picture for next year. Similarly, questions surrounding future district enrollment levels and whether they will rebound in the fall will impact future revenue limits and state aid allocations and provide additional ambiguity for both districts.

Another unusual element is the recent adoption of referenda by the voters of both districts that allow them to exceed state revenue limits. This provides them with access to substantial new local revenues at a time when the remainder of their revenue picture has not yet been decided.

Given that the 2022 budgets that will be adopted by MPS and MMSD leaders over the next few weeks will have several key “placeholders” that will need to be reconsidered in the fall, it made little sense for us to conduct our typical comprehensive analysis of the two budgets as they have been proposed. Instead, this combined budget brief focuses mainly on the overriding issues the two budgets have in common and how their resolution will impact future budget solvency and stability.

We have also constructed this report to include insights that hopefully will be germane to other large districts throughout Wisconsin. Those districts may not be receiving the levels of federal aid enjoyed by MMSD and MPS in particular and the same opportunities afforded by their referenda, but they may wish to contemplate the same issues and observations we present here as they consider their upcoming budgets.
MAJOR SHIFT IN SCHOOL FINANCE

Schools in Wisconsin face uncertainty from both the ongoing state budget and the question of whether their enrollment will rebound in the fall following a sharp drop in 2021, particularly in four-year-old kindergarten and kindergarten. Yet they will also be able to draw on a substantial influx of federal pandemic relief funds in the coming years as well as additional property tax revenues from a historic series of recently-approved referenda.

Here we analyze how these factors will influence school budgets statewide in the upcoming year with particular emphasis on Milwaukee and Madison.

Federal Aid Flows into Schools

In response to the coronavirus crisis, the federal government is channeling huge amounts of aid into Wisconsin schools. As we recently noted, current estimates show public and private K-12 schools in the state will receive nearly $2.7 billion through 2024 from the three major federal relief measures – the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Consolidated Appropriations Act (CAA), and the American Rescue Plan Act (ARPA) – with each piece of legislation delivering substantially more funds than the one before and the ARPA funds available through 2024.

So far, proposals have been put forward to distribute just over $2.2 billion of the total amount, though notably some plans to allocate the aid could still change. Because Congress placed a heavy emphasis on helping districts with low-income students, MPS and private schools in its area are expected for now to receive a large portion of the overall allocation - $797.8 million, or 36.1%, according to the Legislative Fiscal Bureau. MMSD is expected to receive $70.7 million, or 3.2%.

These amounts are not final and could shift somewhat depending on pending action by the Legislature’s budget committee. They also do not include about one-fifth of the total federal aid, which as we note has yet to be allocated.

As Figure 1 shows, MPS is expected to receive the third-highest per pupil aid amount of any district at $11,242 in estimated aid so far while MMSD ranks 133rd among the 421 districts at $2,720. Some districts, however, are expected to receive very little, such as the $137 per pupil estimated for McFarland.

Most other districts receiving high amounts of per pupil aid
are also high-poverty districts, such as Menominee Indian School District or districts such as Washington Island with a small number of students that are benefitting from the state’s decision to set aside a minimum amount that each district can receive. The curve of the chart represents that minimum amount.

The federal aid comes in two main forms: the Elementary and Secondary School Emergency Relief (ESSER) fund and the Governor’s Emergency Education Relief Fund (GEER). Each of these two vehicles received funds from all three of the federal measures, with the overall amounts growing sharply (see Figure 2) and coming with somewhat different rules and distribution approaches for each. ARPA also sets aside an estimated $54.6 million in additional funds for Wisconsin districts under the Individuals with Disabilities Education Act.

Two rounds of ESSER funding ($174.8 million and $686.1 million) have been allocated to public schools largely according to their number of low-income students by the state Department of Public Instruction (DPI) and the Joint Finance Committee. DPI’s proposed allocation for the third and largest round ($1.5 billion) is being considered by the committee. According to LFB and DPI, the many allowable uses for ESSER funds include:

- Pandemic responses that include working with public health officials, training staff on response, and purchasing supplies for sanitation
- Implementing long-term closures, including providing meals to pupils, and carrying out distance learning
- Purchasing technology for virtual learning
- Providing mental health services and supports
- Meeting the unique needs of low-income students and other disadvantaged groups such as homeless students and those with disabilities
- Implementing summer school and after school programs
- Any other use that is allowed under federal legislation such as the Elementary and Secondary Education Act (ESEA) and the Individuals with Disabilities Education Act (IDEA)
In addition, the later measures allow use of the funds for addressing learning loss and making facilities improvements and repairs to reduce the risk of spreading the virus. ARPA also allows its funds to be used for reopening and running school facilities while maintaining the health and safety of students and staff.

The GEER funds, which in Wisconsin are controlled by Governor Tony Evers, went through even more changes across the three federal measures. The first round of $46.6 million was targeted to public schools with a large number of students in need and with difficulties accessing the internet. It can be used for similar purposes to the ESSER funds, including health and safety measures such as COVID-19 testing, changes to infrastructure or scheduling to respond to the pandemic, and remote learning.

As noted above, the first round of funding for ESSER and GEER all went to public school districts but they were required to pass along funds to private schools in their area according to the number of low-income students attending those schools. MPS, for example, reports it passed along $14.8 million of its CARES allocation to private schools in its area.

The CAA and ARPA took a different approach and created a separate emergency assistance fund for private schools. Most of the second round of GEER funding ($77.5 million of the $98.3 million) and all of the $67.1 million in the third round are intended for private schools but have not been allocated yet.

**School Referenda Take Effect**

As districts like Madison and Milwaukee consider their 2022 budgets, school boards have greater ability to tax and spend based on the successful referenda passed in recent months and years. In the last six years alone, more than two out of every three public K-12 districts in Wisconsin have passed at least one referendum, and more than a third of all districts have passed more than one.

The April 2021 elections saw passage rates slip from their previous record highs and there are no more statewide elections this year to generate additional referenda. Still, the huge number of referenda already approved will play a notable role in budgets this year – including for the state’s largest districts.

State revenue limits cap the combined per pupil amount that school districts can raise from state general school aids and local property taxes (federal aid such as pandemic relief is outside the revenue limits). Referenda allow districts to exceed their revenue limits.

There are three main types of referenda in Wisconsin. The first allows a district to issue and levy taxes to pay off a specified amount of debt to construct or improve school buildings. The others both allow the district to levy more in property taxes for operations. Recurring referenda set an amount that the levy can be exceeded in perpetuity, while non-recurring referenda do so for a few years.

In April 2020, Racine area residents narrowly approved a $1 billion referendum in total for their district that was technically non-recurring but lasts for the unusually long period of 30 years. That same election, MPS voters overwhelmingly approved a referendum to allow the district to exceed permanently the state-imposed revenue limit on its operations by up to $87 million over four years.

Meanwhile, in November, Madison voters passed a similar referendum to add up to $33 million to the school district’s operating budget over four years and a second allowing up to $317 million in construction projects. Figure 3 On page 7 shows that the three referenda passed by MPS and MMSD
in 2020 are among the largest of the last decade. For more on how those districts are using their referenda funds, see pages 12 and 18.

In each of the last 10 years, referenda have passed at a statewide rate of at least 60% - something that happened just once in the preceding decade. The 734 referenda that have passed since January 1, 2012 have authorized about $10.6 billion in total new spending. This includes each of the state’s 10 largest districts, which have all passed at least one referendum since 2014.

In the April 2021 elections, districts statewide passed 42 out of 70 referenda (60.0%), the lowest rate of passage since 2011. However, 95 of 111 (85.6%) passed in 2020, which was the second-highest rate since revenue limits were imposed in the 1993-94 school year.

**State Budget Still Uncertain**

The state budget remains a source of uncertainty for school districts as they draw up their 2022 budgets. GOP leaders in the Legislature have rejected Evers’ proposed school funding plan (for more see our recent state budget brief) but will not put forward their own proposal until later in May or June.

The questions include how lawmakers will handle recent enrollment declines (see page 8) and balance the continued needs of schools and students in the pandemic with the substantial influx of federal aid coming to districts. As we have noted, during the Great Recession from 2009 through 2011, Wisconsin made heavy use of federal stimulus funds for K-12 schools. When those funds ran out, the state faced a difficult 2011-13 budget and ultimately cut state aid to schools and local governments substantially.

In February the governor proposed:

- A massive $1.6 billion increase for state K-12 aids – including both equalization and special education aids – and the rest of DPI
• A $200 per pupil increase in the state-imposed school revenue caps in 2022 and $204 in 2023 plus additional increases to the minimum amounts for certain low-spending districts
• A new form of state aid that would provide $75 in per pupil aid for every student who is economically disadvantaged
• Allowing the use of either 2019-20 or 2020-21 pupil counts for calculating revenue limits

Republican lawmakers have signaled they are reluctant to approve Evers’ sizable increases for schools at a time when federal revenues are also available. Following partial vetoes by Evers, the budget approved by legislators two years ago included $568.7 million in additional aid to schools and revenue limit increases of $175 in 2020 and $179 in 2021. Yet it is unclear whether lawmakers will be willing to sign off on the same level of increases given the different environment.

So far, state revenues have remained relatively strong despite the pandemic and are up 8.2% for the year to date. Though the final yearly increase will likely be less than that, the growth so far suggests the state may have the capacity to deliver a reasonable increase in ongoing funding to schools on top of whatever one-time federal funds they will receive.

However, the pandemic has led to a one-month delay in the filing of income tax returns and payments. That may complicate the projection of state revenues, delay the state budget, and place districts in a difficult spot for the next couple months as they attempt to craft their preliminary budgets for 2022. This uncertainty over state funding, coupled with outstanding questions on incoming federal aid amounts, likely will require districts to place a particular emphasis on making adjustments to their final budgets this fall.

**After Decline, Will Enrollment Rebound?**

Enrollment in Wisconsin’s schools had been declining each year since 2014, when it reached a relative peak of more than 873,000 students. But the 2.9% decline from 854,959 students in 2020 to 829,935 students in 2021 – a drop of more than 25,000 students statewide – was by far the largest in at least a decade, and likely much longer.

As we discuss in our state budget brief, this massive drop in enrollment was mostly driven by precipitous declines in pre-kindergarten, four-year-old kindergarten, and kindergarten students. That said, enrollment in grades 1 through 12 also fell.

Across all public districts and independent charter schools that existed in both 2020 and 2021, 339 saw a decline in enrollment, 4 saw no change, and 100 grew their enrollment. Only 22 districts grew by more than 5%, while 120 shrunk by at least 5% (see Figure 4 on page 9).

The numbers above are for headcount enrollment – also known as the “3rd Friday in September” count - which tallies students in the classrooms and schools where they are taught. The state also looks at what is known as full-time equivalent enrollments – or membership – that looks at factors such as summer school enrollments and the actual residence of students who may end up attending classes in a different district or school. Under that measure, 2021 enrollment for school districts alone fell by 3.9%, or somewhat more than headcount enrollment.
Milwaukee Public Schools. Per the enrollment numbers used by MPS in the proposed budget, the trend is the same – total MPS enrollment fell 3.6% from 80,420 in 2020 to 77,511 in 2021. This included a drop of around 2,500 students from traditional MPS schools, by far the largest category of students.

While total MPS enrollment is actually projected to decline again to 76,845 students in 2022, the drop is expected to be entirely due to the loss of independent, or non-instrumentality, charter schools. Traditional MPS enrollment is projected to increase by 2.7% to 64,300 students, much closer to the 65,126 students in traditional MPS schools in the 2020 school year prior to COVID-19. As mentioned previously, MPS attributes the 2021 enrollment decline to a temporary loss in 4K and kindergarten students.

Nevertheless, MPS projects that it will continue to lose about 300 traditionally-enrolled students each year after 2022. By 2026, the district expects to enroll 63,021 students in its traditional schools, nearly 3,700 (5.5%) fewer than it did in 2018.

Madison Metropolitan School District. MMSD has made less optimistic assumptions about their core enrollments. Projections by the district’s research office assume that 4K and kindergarten students will enroll at normal rates in 2022, but that 1st-12th graders who have left the district will not return. Therefore, after a drop of 1,005 students (3.7% - Madison also uses a somewhat different enrollment count) in 2021, the district projects it will gain just 74 students in 2022, and remain more than 1,000 students down from where it was five years ago. That may turn out to be overly conservative, but for now 4K and kindergarten are projected to add 202 students but grades 1-12 are expected to decrease by 128 students. Looking ahead, the research office notes that Madison is experiencing declining birthrates, which could contribute to a trend of lower enrollment in future years.
Operating Budget

MMSD currently projects only modest growth in its revenues and a slight drop in spending within its operating budget (which consists of the general and special education funds combined). However, the 2022 proposal for the operating budget does not yet factor in roughly $20 million in federal pandemic revenues. Including these funds later in the year will change the district’s budget significantly.

For now, the budget assumes 2022 operating revenues of $444.6 million, up 0.8% from the $441.0 million budgeted for 2021 (see Figure 5). Within this framework, the district would be able to provide a 3.23% raise to staff and new investments to close achievement gaps, though with enrollment down the budget once again would cut staffing, reducing it to its lowest level since 2013.

Setting aside the federal funds, property taxes ($319.8 million) would account for a larger majority (71.9%) of operating funds, growing 2.7% from the 2021 amount. State aid – which accounts for most (20.5%) of the rest of the operating fund – is estimated to decline modestly, from $91.8 million in 2021 to $91.1 million in 2022. Though it stabilized last year, previous drops in state aid have added to the pressure on local property taxes to sustain the district budget.

Though the district is projecting a 13.3% decrease in federal aid in its operating funds – from $27.4 million last year to $23.8 million this year – the April budget does not yet reflect ESSER funds and other federal pandemic aid that will come from the CAA and ARPA. Those funds could top $60 million and can be used in 2022, 2023, and 2024.

Spending on Operations

The proposed budget would reduce total operating spending in MMSD by 0.4%, which would be the first drop in at least a decade (see Figure 6 on page 11). After increasing 7.1% from $416.7 million in 2020 to $446.1 million in 2021, total operating spending in the proposed budget would decline to $444.6 million.
The additional federal pandemic revenues will presumably provide a spending increase above the recent rate of inflation once they are added to the budget later this year. However, the district has said it wants to avoid the risky practice of using these one-time funds for ongoing spending increases.

While current proposed expenditures are down slightly, budgeted spending in the two largest categories – regular and special instruction – would rise by 1.2% and 2.7% respectively. Together, the two account for just over half (51.7%) of all spending.

**Teacher Compensation**

Salaries and benefits account for more than four out of every five dollars the district would spend in the proposed operating budget. New this year would be a total average wage and salary increase for staff of 3.23% at a cost of $7 million. It would include a base wage increase of 1.23% and a 2% increase in the schedule providing higher wages to those with more experience and education (see Figure 7).

The total average increase is below the 4.44% increase provided in 2020 but is larger than the 2.5% offered in the current year (though this year also included an additional $3.5 million in bonuses).

The district is not planning any major design changes to health care plans and projects a $1.6 million increase in 2022, which will be funded mainly through savings from past plan changes.
Property Taxes

Across all funds (both operating and capital), the budget proposes a total property tax levy of $361.5 million, up 3.3% from the 2021 budget’s total of $350 million. The budget assumes a 1.3% increase to the tax rate, with the tax bill for the average value home of $321,500 growing by 3.3%, or $115, to $3,623.

The budgeted increase in the property tax rate and potentially the bill for the average home as well are likely higher than what will actually occur, however. The district had assumed for its initial budgeting a 2% increase in property values in its area. Yet the city of Madison – which comprises most of the school district – just recently reported a 6.1% increase in the value of the property that it assesses, so that growth projection will be surpassed, thus reducing the rate.

Referenda Spending in Madison

In November 2020, voters approved two referenda to allow MMSD to exceed state revenue limits by $317 million for a series of capital projects and permanently by up to $33 million by 2024 for district operations. Both measures passing by the largest margins of any of the 51 referenda on ballots statewide.

Here, we provide an update on how the district is spending the new funds and how these referenda have affected district property taxes and state aid amounts so far.

Operating referendum

This referendum allows spending on operations – and property taxes – to rise by up to $6 million in 2021, $8 million in 2022, $9 million in 2023, and $10 million in 2024. The district provided an update on how it is spending those referendum funds in the current school year and how it plans to use them in the upcoming one (see Figure 8 on page 14).

The biggest portion of the funds would be used to increase teacher and staff compensation by $1.3 million this year and $3.4 million next year. Other expenditures include closing achievement gaps, providing for student counseling and mental health supports, and boosting success for students within higher education. Specific items include:

- $2.3 million for COVID-19 costs in 2021 that were not covered by federal relief funds, including technology and facilities needs such as HVAC systems and air quality
- $837,500 in 2021 and $1.5 million in 2022 to implement a new evidence-based approach to teaching students to read that draws on advances in cognitive science (known as the “science of reading”)
- $20,000 in 2021 and $1 million in 2022 to implement full day 4-year-old kindergarten
- $500,000 in 2021 to upgrade elementary and middle school facilities and $550,000 in 2022 for summer school

In last year’s budget brief, we noted the referendum could exacerbate long-running declines in the main form of state aid. In brief, districts with high property values like MMSD essentially lose a portion of their state equalization aid when they choose to spend above a certain threshold –
estimated at $11,083 per student in 2022. Next year, the district is budgeting to spend $13,416 per student, or more than 21% more.

We took the district’s equalization aid projection for 2022 and – keeping all other assumptions the same – calculated how it was affected by the $6 million in additional referendum spending. While the final number this fall could turn out to be higher or lower, the district’s projections so far suggest it could lose $4.2 million in state aid because of the referendum spending, which would bring the total cost of the referendum spending last year to $10.2 million for property taxpayers.

However, other factors such as the growth in overall property values could also have a greater than projected impact in limiting tax rate increases. For that reason, individual property owners should not necessarily assume that their taxes will go up more than previously expected.

**Capital referendum**

The capital referendum focuses on renovating MMSD’s four aging high schools, putting $280 million into La Follette, West, East, and Memorial. In addition, the referendum provides $6 million to consolidate the much smaller Capital High, an alternative school, from two locations into one at Hoyt School and provides up to $30 million to build a new elementary school in the Rimrock area. The district reports spending about $8 million of the total amount authorized as of April 15, mainly for land for the Rimrock school.

So far, the district has issued one third of the overall debt authorized, or $106 million, and has plans to borrow another one third of the total amount next year. In the current year, we calculate the borrowing to date has added roughly $12.3 million to the total MMSD levy and $121 to the bill for the average home. Both amounts are slightly below what the district told voters prior to the referendum and reflect lower-than-expected interest rates.
Federal Aid Impacts Still to be Determined

As shown in Figure 9, MMSD received about $9 million from the CARES Act in both ESSER and GEER funds, but ended up spending $15.9 million on COVID responses in the 2020 and 2021 school years. The remainder came from local revenues such as the property tax.

Close to half of the total was spent on facility and health safety needs, such as physical barriers, facility modifications, meal delivery, and personal protective equipment. The rest went toward instructional design needs, health and emotional safety, and technology and virtual learning. Nearly $590,000 was also passed along to private schools.

The district has not announced specific plans for the remaining federal funds but is expected to receive about $19 million in CAA funds from the second ESSER round and spend those revenues in 2022. The estimated $42.6 million from its third round of ESSER funding through ARPA is expected to be spent in 2023 and 2024.
MPS 2022 BUDGET

The superintendent’s proposal for 2022 represents a starting point in the district’s budget deliberations for next year. Absent from the budget are critical decisions on the use of hundreds of millions of dollars of federal pandemic relief funds and potentially significant changes to state aid amounts and revenue limits in the next state budget. The proposed budget does take into account, however, the extra $20 million the district will receive by virtue of the April 2020 referendum that allows it to exceed the state’s revenue limits.

The superintendent has proposed a separate plan outlining his proposed use of $343 million of the $731 million the district expects from the latest two federal relief packages. That proposal is expected to be considered by the school board when it meets on initial budget adoption in late May. The board will adjust the budget to take into account state aid amounts in the fall (despite the fact that the budget takes effect on July 1).

While the initial proposed budget is therefore just a “placeholder” budget in many respects, it also conveys important insights into MPS’ structural challenges and how they have been impacted by the referendum and the pandemic.

**Revenues**

At first glance, the proposed budget’s revenue picture raises concern, as total revenues shrink by $37.6 million (2.9%) when compared to the 2021 adopted budget. As shown in Table 1, however, the decrease stems from a $64.7 million decline in categorical funds. Of that amount, $56 million is attributed to the elimination of funding from the federal CARES Act. That picture will change when the much more substantial funding from the next two rounds of federal relief legislation (CAA and ARPA) are added to the proposed budget. Also, there is a possibility that some CARES funds will be carried over into 2022, thus recasting the picture even further.

The school operations fund – which is most directly related to instruction – sees a healthy $27.7 million (2.8%) increase in the proposed budget, which largely reflects the additional $20 million granted by the April 2020 referendum. The nutrition and extension funds would see small increases (1.6% and 0.4% respectively) while the construction fund would see a $1.8 million (29.7%) decrease. Similar to categorical spending, construction projects also should see a boost when the use of new federal relief funds is determined.

The foremost source of revenue supporting school operations is the combined per pupil amount of state general school aids and property taxes allowed under state revenue limits. The April 2020

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Table 1: MPS revenues by fund, 2021 vs. 2022 (in millions)

<table>
<thead>
<tr>
<th>Fund</th>
<th>2021 Budgeted</th>
<th>2022 Proposed</th>
<th>2021 to 2022 % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>School operations</td>
<td>$1,006.9</td>
<td>$1,034.7</td>
<td>2.8%</td>
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<tr>
<td>Categorical</td>
<td>$247.1</td>
<td>$181.4</td>
<td>(26.6%)</td>
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<tr>
<td>Construction</td>
<td>$5.8</td>
<td>$4.0</td>
<td>(31.0%)</td>
</tr>
<tr>
<td>Nutrition</td>
<td>$55.6</td>
<td>$56.5</td>
<td>1.6%</td>
</tr>
<tr>
<td>Extension</td>
<td>$34.7</td>
<td>$34.8</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,343.4</strong></td>
<td><strong>$1,305.7</strong></td>
<td><strong>(2.8%)</strong></td>
</tr>
</tbody>
</table>

Source: MPS 2022 proposed budget
The referendum gave MPS the ability to exceed the cap for operations by $57 million in 2021 and an additional $20 million in 2022, $7 million in 2023, and $3 million in 2024 to reach a total of $87 million in that year and every year thereafter.

Under the formula for equalization aid – the state’s main form of assistance to districts – the additional MPS spending in 2021 from the referendum will lead to the district receiving more aid in 2022 than it otherwise would have. The exact impact the referendum has on state aid will not be known until the fall.

The proposed budget assumes as a placeholder that general aids for school operations will remain flat in 2022 at $572.8 million, while property taxes will grow by $23.8 million (8.6%) to $299.9 million (reflecting both the referendum and a minor increase based on the revenue limit formula). This projected change in the combined amount could be considered a highly conservative assumption given the state revenue limit increase of $200 per pupil in the governor’s 2021-23 budget proposal and the Legislature’s approval of $175 and $179 per pupil increases in 2020 and 2021. On the other hand, with the enormous amounts of federal aid flowing to Wisconsin schools, the Legislature may be inclined to leave revenue limits as is for the next two years.

As shown in Figure 10, even with an assumption of flat state aids, the referendum has allowed MPS to increase its foremost sources of revenue. The combined amount of general school aids and property taxes is budgeted to grow by 9.2% over two years, from $799.3 million in 2020 to $872.7 million in 2022. The bad news is that this increase follows three successive years of decline in the combined total. That leaves the district with only about $35 million (4.2%) more in these critical funding sources than it had five years ago despite the infusion of $77 million thus far from the referendum.
Expenditures

For the past several years, MPS budgets have sought to keep schools whole while turning to the district’s central service operations for cuts when circumstances require them. As shown in Table 2, the 2022 proposed budget reverses that trend somewhat by increasing central office spending by $2.1 million (2.1%). Again, the referendum is a primary contributor to this development, as the availability of sufficient resources for schools obviates the need to cut central office support.

Table 2 also shows that when considered across all funds (and not just school operations), funding for schools is down by $28.4 million (2.7%), but that shift again is explained primarily by the absence of the federal CARES dollars that were included in the 2021 budget. The elimination of CARES dollars mainly hits schools but will undoubtedly be replenished by newer sources of federal pandemic relief funds. Also, a reduction in the number of independent, or non-instrumentality, charter schools under the MPS umbrella reduces the amount allocated to schools in the 2022 proposal.

The nearly 17% ($11.6 million) reduction in Other Accounts also merits explanation. About $8 million of that is attributed to the use of referendum monies to pay for $8 million in increased fringe benefit costs that result from early retirement changes made in 2020. Referendum dollars used for that purpose are allocated to schools and allow for an equivalent reduction in the Other Accounts category. Part of the reduction also is explained by plans to make an early payment in 2021 for obligations for Other Post-Employment Benefits (OPEB) owed to retirees (primarily for health care).

**Salary and benefit costs drive spending**

When the expenditure budget is broken down by spending category, the impact of the 2020 early retirement changes and even more significant changes made to the district’s salary framework in 2019 are amplified. Figure 11 on page 18 shows that combined salaries and fringe benefits would grow by $31.3 million (4.2%) in 2022. That amount may not appear unreasonable given typical health care inflation and the need for cost-of-living adjustments (COLAs) to employee salaries, but it produces a two-year increase of $98.2 million (14.6%) when compared to 2020 actual spending.

The new salary framework essentially re-established base pay amounts and created new salary ranges and steps for most MPS position classifications. While we are unable to calculate the precise fiscal impacts of the new framework (both those already incurred and those expected in the future), it is clear that it is a major contributor to the $77.6 million increase in salaries shown in the figure between 2020 and the proposed 2022 budget.

### Table 2: MPS all funds expenditures by department, 2021 vs. 2022 (in millions)

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>2021 Budgeted</th>
<th>2022 Proposed</th>
<th>2021 to 2022 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools</td>
<td>$1,064.6</td>
<td>$1,036.2</td>
<td>(2.7%)</td>
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<td>Central Offices</td>
<td>$220.5</td>
<td>$222.6</td>
<td>1.0%</td>
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<tr>
<td>Other Accounts</td>
<td>$69.0</td>
<td>$57.4</td>
<td>(16.8%)</td>
</tr>
<tr>
<td>Inter-department &amp; Inter-fund</td>
<td>($10.8)</td>
<td>($10.5)</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,343.3</strong></td>
<td><strong>$1,305.7</strong></td>
<td><strong>(2.8%)</strong></td>
</tr>
</tbody>
</table>

Source: MPS 2022 proposed budget
It is also important to note that the sharp increase in 2021 was attributed, in part, to the decision to implement a new provision to recognize teaching experience outside of MPS in determining where individual teachers fall in their payment classification. This caused substantial one-time boosts in pay for some segments of the teaching workforce that are financed in this year’s budget but that are not a significant factor in 2022. According to MPS budget officials, the proposed budget for salaries in 2022 also assumes a 1.5% cost-of-living adjustment (COLA) for employees.

On the fringe benefits side, the school board adopted a modification to MPS’ retiree benefits policies in 2020 that lowered eligibility for retiree health and life insurance benefits from age 60 to age 55 for certain employees with 20 or more years of service. According to budget officials, this will produce an added OPEB cost to the district of about $7 million per year. As noted above, this cost is being covered by referendum monies in the 2022 proposed budget.

**Impacts of 2020 Voter Referendum**

MPS’ ability to secure passage of a far-reaching referendum in April 2020 was seen as an instrumental step in its efforts to address a growing imbalance between its annual expenditure needs and the revenue growth available to meet those needs. It also was touted as a mechanism to invest in priority areas that would “increase equity and excellence in our schools and promote positive educational, social, and emotional outcomes for our community’s children.”

It likely will be several years before the impact of the referendum can be measured and it also will be another two years before the $87 million in annual additional revenue limit capacity is fully phased in. However, a supplement to the budget allows for some initial analysis by laying out the intended uses of both the $57 million of additional capacity granted in 2021 and the $77 million in 2022.

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1 See supplement to proposed MPS budget at [https://mps.milwaukee.k12.wi.us/MPS-English/CFO/Budget-Finance/MPSReferendum.pdf](https://mps.milwaukee.k12.wi.us/MPS-English/CFO/Budget-Finance/MPSReferendum.pdf).
As shown in Figure 12, about $70 million (52%) of the $134 million total would be used for Attracting and Retaining Certified Educators, a category that is mostly comprised of new costs incurred in both 2021 and 2022 for the salary and benefit modifications described above. The next largest category is Advanced Academics ($17.3 million or 12.9%), which refers generally to investment in Montessori, gifted and talented, bilingual, and other special academic programs. The largest portion of this investment ($12 million in 2022) is for updated textbooks, however, that will be spread across all schools for all subjects and not just advanced academics.

Third on the list in terms of total spending is Professional Support Staff at $16.2 million (12.1%), which includes the addition of 34 counselors, 30 nurses, 30 social workers, and 24 psychologists over the two years. Other spending categories include investments in early childhood programs, reduced class size initiatives, and specialized school offerings like music, libraries, visual art, physical education, and career and technical education.

This spending summary shows that MPS is allocating referendum monies to categories that are consistent with the priorities laid out to voters prior to the referendum. Whether the percentages for each category achieve the same level of consistency is less clear, however.

In particular, it is notable that more than half of the funds support changes in the district’s salary and benefits structure, the bulk of which were adopted prior to the referendum’s passage. This is arguably a justifiable expense; as we noted in last year’s budget brief, the new compensation framework arguably has allowed the district “to address one of its fundamental challenges – attracting and retaining talent.” It is also important to note that MPS leaders have been transparent about prioritizing teacher recruitment and retention in their use of referendum dollars.
Nevertheless, the magnitude of the dollars needed to support the recently approved compensation changes is still coming into focus and suggests the possibility of conflict with other referendum-related priorities. That point is illustrated by the district’s five-year budget projection. We previously noted the projected growth in salaries and benefits, and Table 3 shows how that combined growth vastly exceeds projected growth in the district’s revenues.

As discussed earlier, the substantial initial growth in spending associated with the recent compensation changes already has been largely absorbed with the help of referendum monies. However, while the upward pressure on salaries and benefits is expected to slow going forward, it still is projected to far exceed the revenue growth resulting from the final two years of the referendum’s phase-in and MPS’ conservative estimates of its growth in total state aids and revenue limits. That, in turn, could threaten the district’s ability to expand or even sustain its financial commitment to other referendum-related priorities, which collectively already are receiving less than half of the referendum monies.

On the positive side, if future state budgets produce increased aid amounts or, more to the point, authorize greater per pupil spending for MPS, then the long-term outlook could improve. In addition, as we will discuss below, the strategic use of CAA and ARPA funds could brighten the outlook even further.

### Use of Federal Funds

While the proposed budget does not include allocations of federal CAA and ARPA funds (also known as ESSER II and ESSER III), the superintendent has proposed a spending plan for $343 million of the combined amount as a supplement to the budget. That plan will be reviewed by the school board and potentially included in the budget upon its initial adoption in late May (though some aspects of the plan involve multi-year spending and may not be reflected in the 2022 budget).

MPS expects to receive a total of $731 million from the two aid packages – $225 million from ESSER II and $506 million from ESSER III. This comes on top of the $56 million allocated under CARES, or ESSER I. After the ESSER II dollars were approved by Congress last December, MPS leaders created

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2 The increase shown here reflects, in part, additional expenditures for non-instrumentality charter (NIC) schools. This estimate was prepared before six NICs decided to leave the district and will be reduced in subsequent five-year projections.

3 It should be noted that a factor contributing to the projected slow state revenue growth is the termination of the state’s Chapter 220 integration program, which is expected to create a sizable hit to MPS’ revenue budget in 2024.
teams to identify spending proposals in three priority areas: accelerating learning, health and wellness, and facilities.

That process yielded proposals for $343 million of ESSER spending, which is categorized in Figure 13. The $343 million exceeds the $225 million the district will receive under ESSER II, but the plan assumes that adoption of the full package would be supported by $118 million of the additional $506 million expected under ESSER III.

The superintendent’s proposal contains a mix of funding dedicated to areas where substantial needs have arisen as a direct result of the pandemic; other areas of longstanding need that are not necessarily pandemic-related; and a massive investment in facilities, which encompasses both.

- **Pandemic-related investments** are largely found in the Direct Services ($20.1 million) and Mental Health ($20.4 million) categories. For example, Direct Services includes $14 million for additional teacher hours needed to implement extended learning during the summer and on Saturdays for students who have fallen behind during the shift to virtual learning; and the Mental Health category includes $10.9 million for school-based and tele-therapy mental health services in response to students’ heightened behavioral health needs.

- **Other investments** are largely found in the High Quality Materials, Professional Development, Social Emotional Learning, COVID-19, and P.E. & Experiential Learning categories. At $52.4 million, High Quality Materials encompasses a major investment in new curricula for science, social studies, and writing as well as new instructional technology and equipment in areas like art and music. Accompanying that investment is $15.8 million for professional development to ensure teachers have the skills needed to implement new curricula and effectively use new materials and equipment. The Social Emotional Learning ($12.4 million) and P.E. & Experiential Learning ($5.7 million) categories are linked to student health and wellness and include investments in youth guidance, Black and Latino male achievement programs, restorative practices, and physical improvements to playgrounds and exercise stations. The COVID-19 health and wellness category ($11.0 million) mostly consists of funding for general public health needs.
within MPS that have been amplified during the pandemic, such as emergency paid sick leave for employees and the expansion of nursing contracts.

- **Facilities** is by far the largest spending category at $198.7 million. That should come as no surprise given a 2018 consultants study that rated a third of MPS’ facilities in poor or unsatisfactory condition and estimated the cost of upgrades to bring those facilities up to the “good” range would exceed $969 million. The bulk of the proposed investment ($155.7 million) would address air quality by upgrading ventilation and mechanical systems at the district’s 158 school buildings. Many of those improvements have been desired for years but have now become especially imperative in light of the pandemic. Other facility improvements similarly address existing needs that have intensified during the pandemic, including replacement of water fountains with bottle filling stations and installation of outdoor classroom structures.

Overall, the ESSER II plan appears to make responsible investments in both longstanding and pandemic-produced academic priorities and infrastructure needs. Some of the proposals in the “other investments” category do raise questions about sustainability, as they involve new or expanded programming that MPS leaders may wish to continue after the ESSER funds are exhausted. However, the vast majority of funding would be directed to curriculum and facilities improvements that are one-time in nature and that would yield future academic dividends while also providing some long-term fiscal relief.
CONCLUSION

For the past 14 months, the state’s two largest public school districts have confronted a series of challenges arising from the global pandemic, including the need to initiate new instructional models and technology enhancements for virtual classrooms and to spend sizable sums on PPE and facility improvements for the return to in-person learning. On top of those expenditure pressures, both districts faced anxiety from sizable drops in enrollment and an initially ominous state revenue picture.

Consequently, it is somewhat remarkable that as the two districts now initiate deliberations over their 2022 budgets, their financial position appears stronger than it was one year ago. That improvement comes mainly from the effects of successful referenda and huge allotments of federal aid, as well as the likelihood that state aid levels and revenue limits will not be reduced – and may even grow – as revenue collections rebound and federal assistance bolsters state coffers as well.

The true state of the districts’ position and finances, however, may not be revealed until there is greater knowledge of ongoing student enrollment and student needs. First, there is the question of whether students who left MMSD and MPS – or who did not matriculate as they otherwise would have – will return to the districts. Even more important may be the question of how the pandemic has impacted current student populations and to what degree their academic and other needs have grown. The answers to both questions may have both short and long-term implications for district finances.

In light of the huge amounts of federal aid that have not yet been allocated (particularly for MPS) plus the ongoing fiscal benefits accruing from the referenda, there certainly is hope that both districts can absorb any such impacts and that ample amounts will then remain to make long-term investments in areas like facilities and curricula that will have lasting benefits for both students and future budgets.

However, for MPS in particular, commitments already made for staff salaries and benefits and the magnitude of prior backlogs in facility and instructional needs make that an uncertain question for the time being. Also, whereas the bulk of the increases allowed by MMSD’s four-year operating referendum have yet to take effect, the four-year MPS referendum was front-loaded and already has reached more than half its total.

While both districts are using their referenda funds to raise teacher compensation and address other needs such as closing achievement gaps, they have a notable difference. The additional spending from the referenda will likely boost state aid for MPS beyond what it otherwise would have been, while the design of the state’s funding formula means it could have the opposite effect for MMSD.

In short, there is reason for a sigh of relief that the districts were not hit as hard as expected and in some ways appeared to improve their finances. However, a long-term prognosis will have to wait until decisions on federal and state aids are made and questions about student enrollment and need are answered in the months ahead.