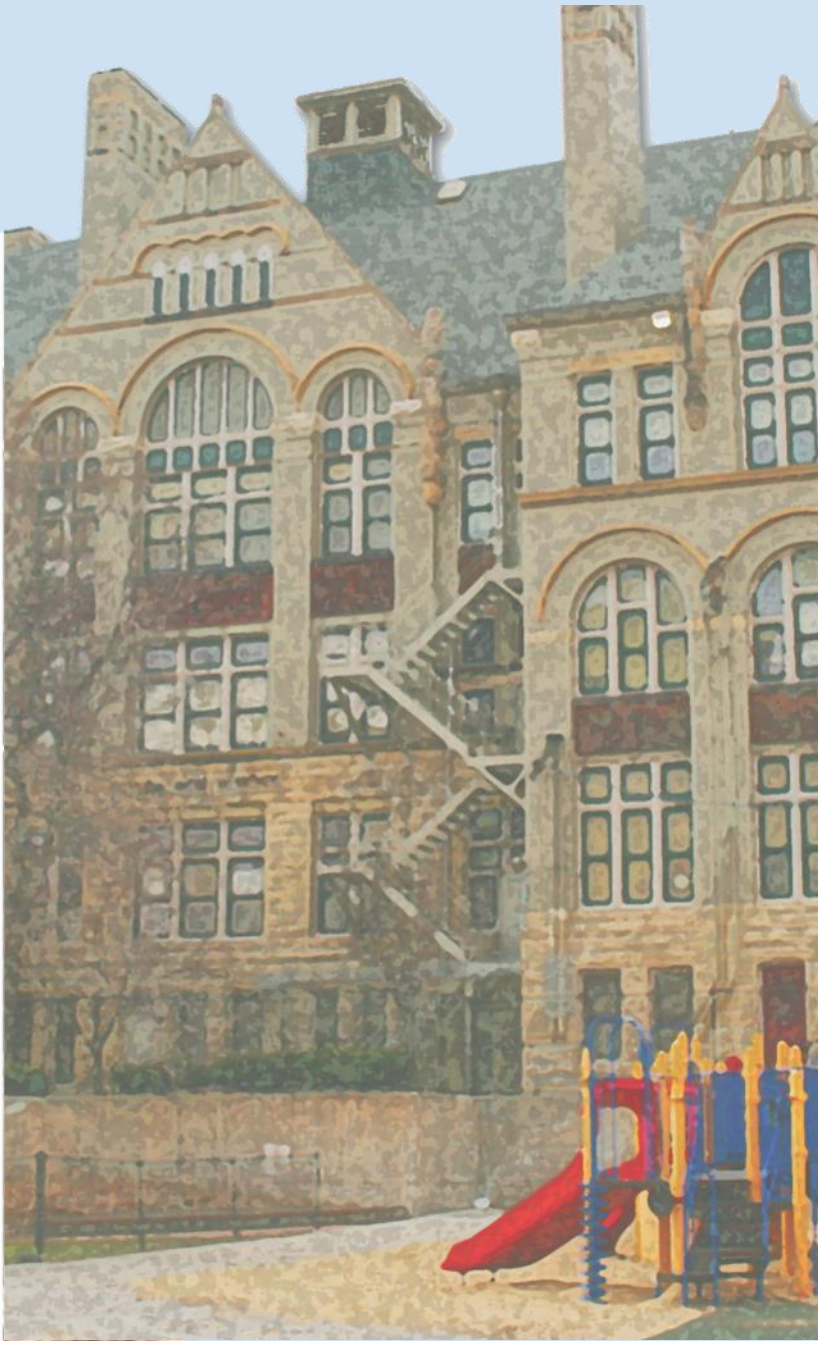
BUDGET BRIEF

# UNCHARTED WATERS

*Wisconsin's School Budget Climate and the State's Two Largest Districts*



WISCONSIN POLICY FORUM

# UNCHARTED WATERS:

*Wisconsin's School Budget Climate and the State's Two Largest Districts*

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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 2023 proposed budgets refer to the budgets recently submitted by the two superintendents to their respective school boards. The budgets cover the school districts' 2023 fiscal year, which takes effect on July 1, 2022, and runs through June 30, 2023. 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 2023 will be established at that time.

# INTRODUCTION

School districts in Wisconsin find themselves in a strange financial position at present, caught between state austerity and federal largesse. On the one hand, lawmakers have essentially frozen most state and local revenues for districts for both years of the current state budget, and accelerated drops in school enrollment due to the pandemic will add to this strain over the long term. On the other hand, the federal government has poured a massive amount of one-time pandemic aid into many districts, including Milwaukee and Madison. In addition, both of those districts and hundreds of others in Wisconsin have approved referenda in recent years to raise their local property taxes beyond what state law would otherwise allow.

This odd dichotomy between the state and federal approaches makes it difficult to provide a simple answer for how districts as a whole, or even a single district, are faring financially. The answer depends in part on whether the district has passed a recent referendum or qualified for large amounts of federal pandemic aid. It also depends on the type of spending districts feel compelled to pursue – a district may be struggling with ongoing costs such as a raise for teachers but able to use federal aid to afford purchases such as the materials for a new reading curriculum.

In this new report on school district budgets for the 2022-23 school year, we seek to provide a more complete view of both the positive and negative forces affecting school finances in Wisconsin, with a particular focus on the state's two largest districts. 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. Since 2020, we have produced a similar brief for the budget proposal from the superintendent of the Madison Metropolitan School District (MMSD).

For the second year in a row, we are combining these briefs, which allows readers to see how the two districts are similar in some respects and very different in others. For example, both districts face major challenges from the pandemic itself, including student learning loss and mental health concerns, as well as obstacles posed by state revenue caps and enrollment losses. Both districts have also received a boost from an influx of federal aid and a successful local referendum, but there are some differences – and some similarities – in how they are spending those funds.

We have also constructed this report to include insights that will be germane to districts throughout Wisconsin. Those districts may not be receiving the same levels of federal aid enjoyed by MMSD and MPS or the same opportunities afforded by their referenda, but they face many of the same impacts from the state budget and to some degree the difficult trends in enrollment as well. We hope these insights will provide important perspective for communities as they consider how to address these complex issues within their local districts in a challenging time.

# THE STATEWIDE PICTURE

In this section, we look at the big picture for school finances for districts across Wisconsin, laying out the major forces such as the state budget and surge in federal aid that have a statewide impact. Subsequent sections will then provide greater detail on the proposed budgets for 2023 for the Madison and Milwaukee school districts.

## Federal Aid Flows to School Districts

Recent Forum research provided an update on the three major pieces of federal pandemic legislation that together have awarded nearly $2.4 billion in relief dollars to public K-12 schools in Wisconsin. Those measures include the Elementary and Secondary School Emergency Relief (ESSER) fund, which was funded over three rounds and constitutes the majority of the aid, and the Governor's Emergency Education Relief (GEER) fund. ESSER dollars are awarded mainly through the federal Title I formula, which is based on students' economic status. In other words, districts serving higher percentages of students from low-income households receive a larger proportion of the federal funds.

Under the total GEER and ESSER allocations to date, Wisconsin's average local education agency – essentially a school district or independent charter school – is slated to receive $2,872 per pupil, and the median allocation is $1,843 per pupil. These allocations do not include a portion of ESSER funds that will be distributed via competitive grants, nor do they include $110 million in federal Coronavirus Relief Funds reallocated to school districts and charter schools by Governor Tony Evers.

The formula provided the greatest proportion of federal funds (33.4%) to Milwaukee Public Schools (MPS) by virtue of its large number of low-income students. MPS will receive a total of $797.2 million or $11,535 per pupil. The Madison Metropolitan School District (MMSD) is slated to receive 3% of the funds allocated to Wisconsin, a total of $70.6 million or $2,769 per pupil. For both districts, these amounts include a small portion designated for private schools.

Congress appropriated the federal relief dollars for a vast array of allowable expenditures to give school districts flexibility in addressing locally identified needs in the face of COVID-19. Most districts faced steep challenges directly related to COVID and are using the funds to address those harmful effects along other longstanding needs and inequities. School districts that use these one-time funds for ongoing expenses could face budget challenges when they run out.

## State Budget Limits School Property Taxes

Pointing to the large influx of federal aid, lawmakers opted to limit state and local revenues to districts for both the current 2022 school year and 2023. The 2021-23 state budget provided no increase in either year in state revenue limits, which cap the amount that school districts can raise through local property taxes and state general school aids combined. Governor Evers criticized this section of the state budget but ultimately signed the legislation and then, as noted above, provided an additional $110 million in federal funding.

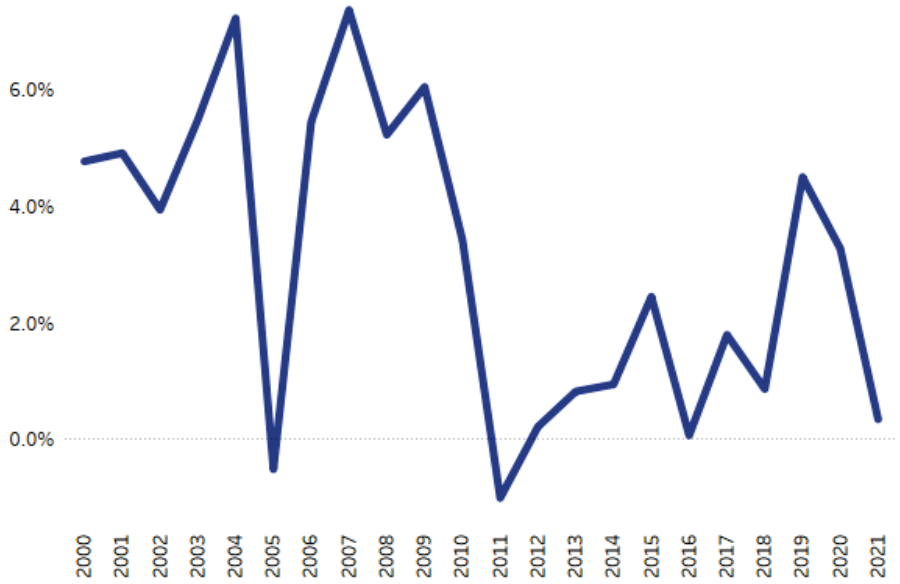
Supporters of the school revenue freeze argued that the federal relief provides more than ample funding for education in the state for now and that it made sense to use it as an opportunity to benefit property taxpayers. Opponents point out that not all districts received huge amounts of

federal aid and that districts risk financial difficulties later if they use the one-time federal money for ongoing expenses such as new staff or raises for existing staff.

The state budget also increased the state general school aids available to districts by $192.8 million in the current 2022 school year and by $189.1 million in 2023. Since revenue limits are not increasing, that means that districts as a whole statewide cannot spend the extra general aids and have to use the funds to lower property taxes. That dynamic kept December 2021 statewide school property tax bills to their fourth-lowest change in the past two decades and likely will have a similar effect on December 2022 tax bills as well (see Figure 1).

**Figure 1: Tax Growth Slows for Wisconsin School Districts**

% change in property tax levies by year, 2000-2021




Source: Wisconsin Department of Revenue

The two-year budget did increase aid for specific categories of students that fall outside of the revenue limits, including a nearly $50 million increase in special education aid this year – a major priority for school leaders. However, there was no increase to per pupil aid, a flat payment to districts which was boosted in previous budgets to offset some of the impacts of flat revenue caps. Consequently, in terms of state and local funding at least, districts across the state will see relatively flat budgets this year unless their local voters have approved a referendum to increase property taxes.

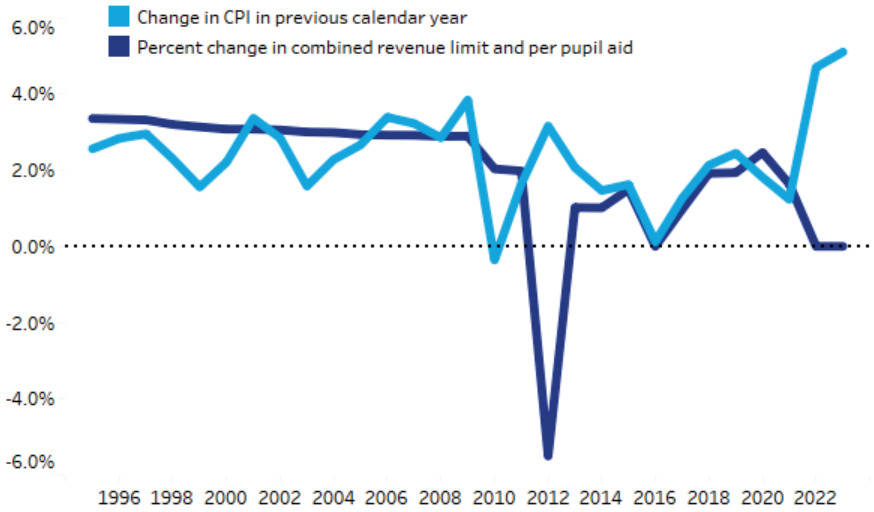
This stasis may pose a particular problem for the upcoming year given the extent to which most districts' costs are rising. Consumer prices rose 4.7% in 2021 over the previous year, and inflation has accelerated since then. This increase especially matters since, under state law, the base wage increases allowed in teachers' union contracts are tied to the percentage change in CPI.

In the 1990s and 2000s, the annual per pupil increases in state revenue limits closely tracked the rate of inflation. In fact, from 1999 to 2009, state law explicitly linked the increase in revenue limits to the change in CPI. As Figure 2 shows, the percentage change in the state revenue limit (and related per pupil aid amounts) by school year has rarely deviated by more than one percentage point from the rate of inflation in the previous calendar year (the lag gives time for state policy to adjust). The major exceptions were in 2010, when the inflation rate fell but Democratic lawmakers still increased the revenue limit somewhat; in 2012, when Republican lawmakers cut revenue limits and state school aids to help close a state budget shortfall without increasing taxes; and the current two-year budget marked by high inflation but no increase in the revenue caps.

The wages and benefits of teachers and other staff represent the single largest cost for school districts, and boosting pay will be difficult without increases in their ongoing state and local revenues. Yet districts also fear staffing challenges if they fail to do so. Data are not yet available to assess fully how the tighter labor market has affected school staff but shortages for positions such as school bus drivers and substitute teachers have been widely cited around the state.

**Figure 2: State School Revenue Caps No Longer Tracking Inflation**

Percent change in revenue limit and per pupil aid by school year compared to the change in the Consumer Price Index




Sources: WI Department of Public Instruction, U.S. Bureau of Labor Statistics, and Bloomberg; the combined amount in revenue limit and per pupil aid is divided by the average revenue limit per member and the change in the Consumer Price Index is calculated with calendar year averages and a 2022 forecast.

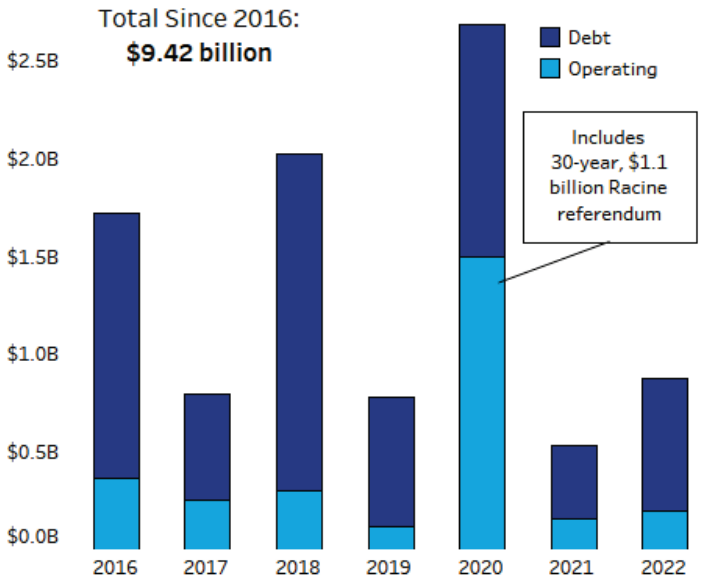
## Referenda Reshape School Budgets Statewide

With state limits on school revenues remaining tight in recent years, districts around the state have turned to voter referenda to raise their local property taxes and spending. These referenda also can affect the amount of state aid that districts like Milwaukee and Madison receive.

In the recent spring elections, 66 school referenda were approved out of a total of 82 on the ballot, for a passage rate of 80.5%. Since the beginning of 2016, 312 of the current 421 K-12 school districts in Wisconsin, or 74.1%, have passed at least one referendum, and 164, or 39%, have passed more than one. Though passage rates vary – they tend to be higher in even-numbered years when many local, state, and federal races are on the fall ballot – school district referenda in Wisconsin have passed at a rate of at least 60% in each of the last seven years, and a rate of at least 75% in five of the last seven years.

**Figure 3: Billions Approved by Referenda in Recent Years**

Addtl spending and property taxes authorized* by referendum by type




Source: Dept. of Public Instruction. *Dollar amounts are counted in the year that referenda passed, not necessarily in the year that taxes and spending were raised.

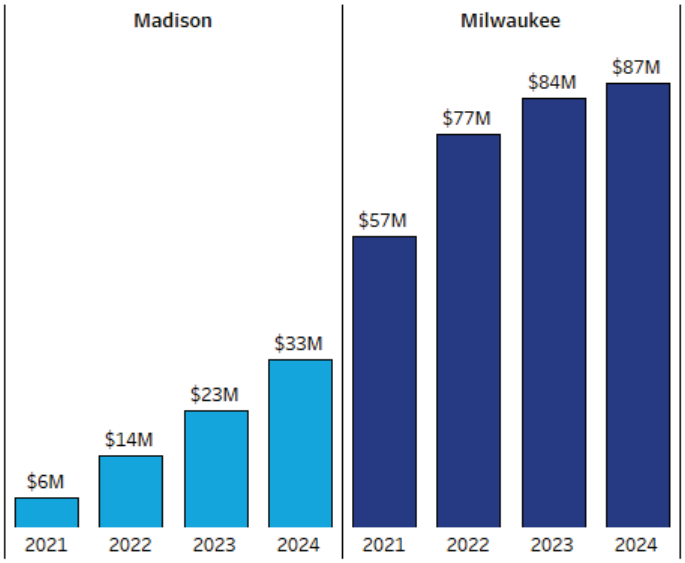
Of those 66 spring referenda approved by voters in 56 districts, 41 (62.1%) were to fund ongoing costs. These operating referenda can be limited to several years or be permanent (in contrast to debt referenda, which typically fund major one-time construction or renovation projects). So far in 2022, referenda have authorized up to $676.1 million in new debt and up to an additional $201.9 million in property taxes for operations, with the great majority of that for a limited number of years. Since the start of 2016, 563 successful referenda have approved up to $6.52 billion in debt for capital projects, as well as up to $254.0 million per year in permanent or recurring funds for operations and up to $2.65 billion in non-recurring funds over multiple years (see Figure 3 on the previous page).

### *Madison and Milwaukee Referenda Have Opposite Impacts on State Aid*

As part of our analysis, we looked specifically at how the operating referenda approved by MPS and MMSD voters in 2020 are impacting their state aids. The Milwaukee referendum ramps up over four years to provide $87 million in additional spending over what would have otherwise been allowed by state limits. As shown in Figure 4, the $33 million operating referendum in Madison is also phased in over four years and was accompanied by a separate measure authorizing up to $317 million in new debt (for more on MMSD's capital referendum, see page 14). For Milwaukee, this was the first referendum on the ballot since an unsuccessful attempt in 1993; the two Madison referenda represented the seventh and eighth approved out of 10 attempts since 2000.

**Fig. 4: MMSD, MPS Near Year Three of Referenda**

Revenue limit authority increases from 2020 operating referenda*




Sources: Dept. of Public Instruction, MPS, and MMSD; *figures show the referendum impact on property taxes in each year as compared to taxes prior to 2020 vote.

Under the budget proposal, Madison would use the third year of the referendum phase-in to raise property taxes in 2023 by $9 million over what would have otherwise been allowed by state limits, or $23 million in total since 2020. The money is not broken out with specific spending amounts but is being put toward an overall budget providing full-day four-year-old kindergarten (4K), a boost to teacher pay to improve retention, foreign language classes in middle schools, and a variety of efforts to support students and reduce disparities, including additional social workers, alternative pathways for students to graduate from high school, and library and technology programs.

Also in year three of its phase-in, the MPS referendum provides an additional $7 million beyond state limits in 2023, or $84 million in total since 2020. Those monies would fund similar projects to those of MMSD: attracting and retaining staff ($39.7 million), class size reductions ($4.5 million), advanced academic programs ($14.7 million), and career and technical education ($1.7 million), among others. Additional details on MPS' use of referendum dollars are provided in a later section.

One major difference between the two districts is how their additional referendum spending is affecting their equalization aid, which is the main form of state aid to schools. Milwaukee has

relatively low property values, so if MPS raises property taxes and spending in one school year, then the district will receive additional state aid in the following year under the state's complicated aid formula. Madison, on the other hand, has much higher property values, so an increase in the district's spending in one year can trigger a loss of state aid in the following year under the formula.

Using the figures submitted to the state by both districts, we calculated that the $57 million increase in MPS property taxes and spending in the 2021 school year triggered a $37.9 million increase in the district's eligibility for state equalization aid in 2022 as compared to what MPS would have otherwise received. For Madison, however, the $6 million in additional referendum spending in 2021 resulted in a loss of $3.8 million in state aid this year over what it would have received otherwise – relatively close to the $4.2 million potential loss we noted in last year's school budget brief. Though subject to change, MMSD's initial budget projections suggest its operating referendum could lead to Madison losing millions in state aid again in 2023.

## Statewide Enrollment Declines Once Again

Continuing a longtime trend that worsened during the pandemic, enrollment fell at public schools in Wisconsin in the fall of 2021. The dip will add to the financial challenges for many public school districts going forward, particularly if the trend continues into this fall.

Each year, Wisconsin's public schools report a "third Friday in September" count of students to the Department of Public Instruction (DPI) – a tally of the state's students in the classrooms and schools where they are taught. After dropping slightly each year since the fall of 2013, statewide public school enrollment, including charter school students, stood at 854,959 in the September 2019 count taken prior to the pandemic.

In the fall of 2020, enrollment plummeted 2.9% to 829,935 and then dropped an additional 0.1% in 2021 to 829,143. The decline was led by the youngest students. Kindergarten and 4K enrollment combined fell by 9.6% in the fall of 2020, though it rebounded last fall by 3.9%. Grades 1 to 7 declined by 3.4% in fall 2020 and then declined again by 1.5% in fall 2021.

Of the 445 districts and independent charters in Wisconsin that existed in both the fall of 2020 and 2021, 188 lost students. That includes eight of the state's 10 largest districts, such as Milwaukee (-3.3%) and Madison (-2.5%).[1] Enrollment stayed the same in six districts and increased in 250 districts or charters. Racine (+1.6%) and Kenosha (+0.7%) were the only two of the 10 largest districts that saw enrollment rebound.

Since the start of the pandemic, statewide enrollment has now declined by 3%, or 25,816 students. All 10 of the state's largest districts have seen declines larger than the statewide average, led by a 7.5% decline in Milwaukee (more than 5,500 students).

Notably, information collected by DPI shows that after dropping by 1.5% in the fall of 2020, private school enrollment rebounded by 2.4% to 121,729 in the fall of 2021, exceeding the total in the fall of 2019 (120,705). Part of the long-term drop in public school enrollment reflects Wisconsin's falling birth rates and predated COVID-19. Yet, the much larger dip during the pandemic appears to reflect at least in part a shift of some public school students to private and home school settings.

[1] DPI enrollment figures cited here for MPS and MMSD differ slightly from enrollment figures used by the districts themselves in budget documents that are referenced later in this report.

The full financial effects of the enrollment drop will not be felt immediately by some districts, given that the state's revenue limit formula initially holds them harmless from the effects of a dip. Yet the impact will result over time in lower revenue caps for districts as well as lower amounts of state aid.

# MMSD 2022 BUDGET

The MMSD budget contains some of the same contradictions noted in the introduction – a large infusion of federal aid, concerning drop in enrollment, sizable referendum to raise property taxes, and a relatively small increase in state and local funding overall. Notably, state aid to the district continues to fall despite a substantial overall increase in K-12 aids in the state budget. That disconnect, as noted above, is due to the fact that the state's school aid formula provides less assistance to districts with high property values like Madison.

In our first budget brief on MMSD in 2020, we highlighted the ongoing concern about the district receiving relatively little state aid despite having substantial numbers of low-income students. As a result, Madison depends on the property tax to fund a little over two-thirds of its budget and even more than that if we look at only its state and local revenues. As we have noted, the recent operating referendum has only accentuated that trend.

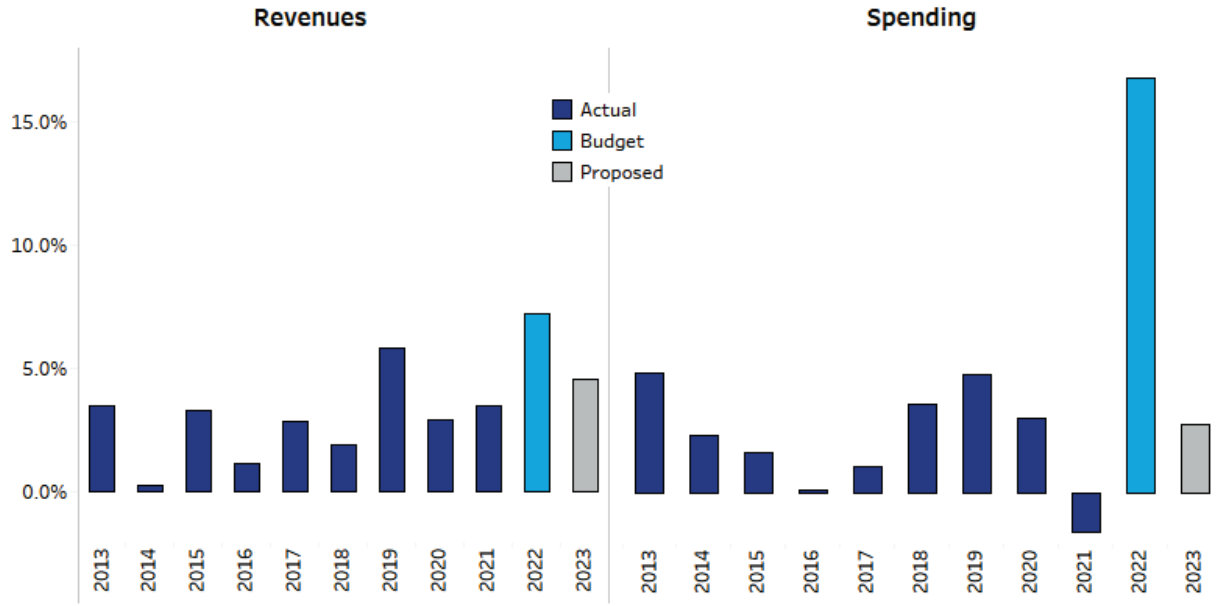
For now, the influx of federal pandemic aid is helping to hide the fact that the Madison schools are increasingly dependent on local property taxpayers to educate students, many of whom have critical needs. When the federal funds run out, this trend will become even more apparent.

## Operating Budget

Driven by a surge in one-time federal aid and a $9 million increase in property taxes from the referendum over what otherwise would have been allowed, revenues are projected to rise by 4.6% in 2023 within MMSD's proposed operating budget (which consists of the general and special

**Figure 5: Federal Aid Boosts MMSD Revenues and Spending in 2022 and 2023**

Percentage change in operating budget by year




Source: Madison Metropolitan School District

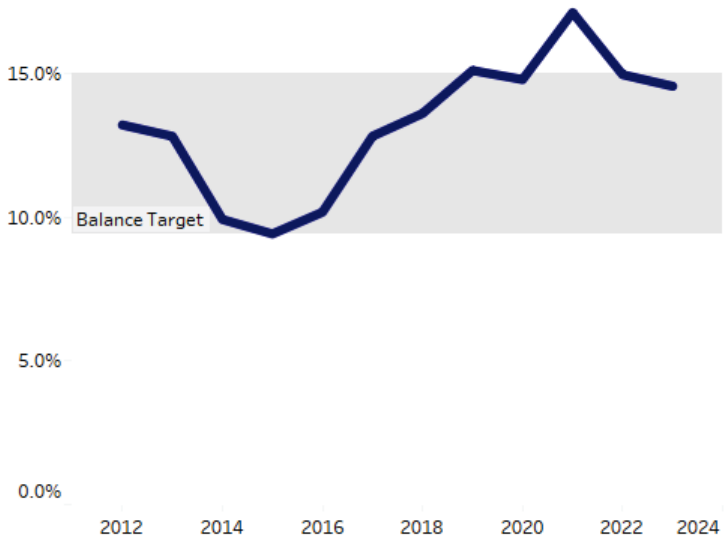
education funds combined). While spending would increase more slowly at 2.8%, the district still would continue to draw down its reserves for the second straight year under the proposal.

The budget projects 2023 operating revenues of $490.9 million, which would be up from $469.5 million in the current year and represent the third-largest increase of the past decade (see Figure 5). The relative strength in revenues this year stems largely from federal pandemic aid that must be spent or obligated by 2024, thus masking a longer-term concern about what happens once the aid is exhausted. Property taxes would rise moderately under the proposal while state general school aid is expected to fall. The district is not budgeting for an increase in special education aid but could receive one based on the state budget.

The proposed budget would increase total operating spending to $492.6 million from $479.3 million, which would be much less than the 16.8% increase in the current year due to the additional federal aid but more than the 1.5% decline in 2021. Some of the biggest increases in the current year and the proposal for 2023 would be for regular and special instruction and for services to students. District leaders say they have emphasized one-time spending items to account for the fact that the federal aid will soon run out. Even so, the district could still feel keenly the loss of those funds in future years.

**Figure 6: Reserves Dip but Remain Within Target**

MMSD general fund balance as a share of spending by year




Source: Madison Metropolitan School District; MMSD aims to keep its balance between 10-15% of spending.

The district's reserves, or its unassigned general fund balance, will remain flat in 2023 at $71.7 million. That works out to 14.6% of its annual operating spending, which is within the district's target of 10% to 15% (see Figure 6).

### *Property Taxes, Revenue Limits, and the Total Budget*

Across all funds (both operating and capital), the budget proposes a total property tax levy of $364.8 million, up 2.2% from $356.9 million in the current year (see Figure 7). That $7.9 million increase is well below the rate of inflation and reflects two factors: flat state revenue limits that on their own would have kept the tax increase to an even smaller amount; and the impact of the $9 million operating referendum.

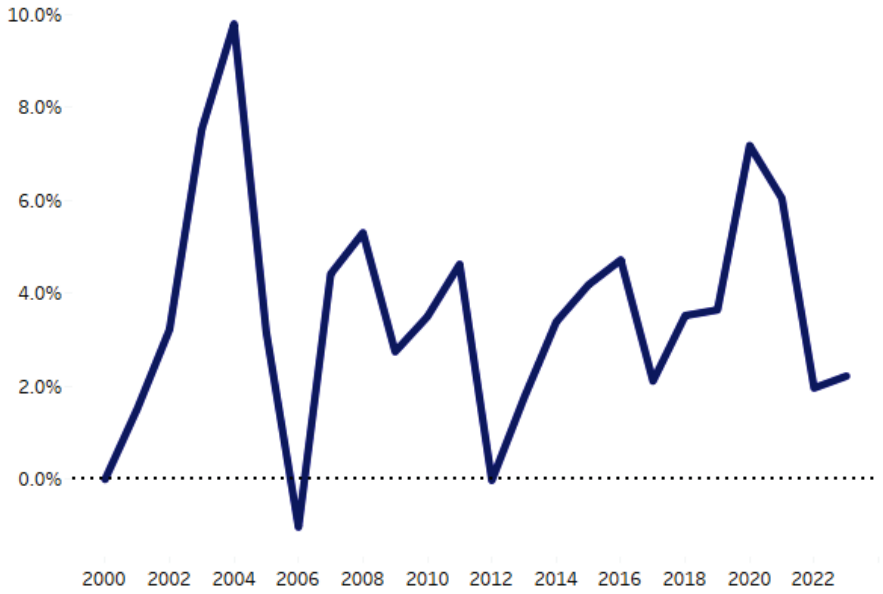
After a 3.6% increase in its revenue limit in 2021 and 2.8% in the current year, the district is receiving only a 0.9% increase in the revenue it can receive from state general school aids and local property taxes. Most of the growth in the revenue cap in recent years has been due to the district's operating referendum; without it, the district actually would have received a roughly 1.5% decrease in the limit for 2023. The proposal assumes a modest decrease in the district's property tax rate,

with the tax bill next year for the average value home of $348,608 growing by 2.2%, or $85, to $3,904 from $3,820.

Even with the increased federal aid, the district's budget across all funds would increase spending by just 0.9% in 2023 to $542.9 million, up from $538 million in 2022. Revenues are projected to rise 3% to $540.2 million in 2023, up from $524.6 million this year.

**Figure 7: Growth in Property Taxes Also Slows for Madison Schools**

% change in MMSD property tax levies by year, 2000-2021




Source: Madison Metropolitan School District

### *Enrollment Still Dropping*

Last year, Madison made a relatively conservative projection that after a drop of over 1,000 students in the fall of 2020, it would gain back 74 students in the fall of 2021. Instead, the district saw enrollment decline again by 482 students to just 25,396. Since the fall of 2017, MMSD has lost more than 1,600 students.

Between last year and the current school year, the district reported that a majority (56%) of the 2,731 students that left the district did so because they moved elsewhere in the state; another 15% moved to another state entirely. However, there were also a number of students who moved to private or parochial schools (197 or 7%), moved to another district via open enrollment (114 or 4%), or started learning at home (72 or 3%).

The financial impact of this enrollment loss has been dampened by three factors: the referendum; the fact that the state for now is not increasing revenue limits on a per pupil basis; and provisions in the state formula that temporarily shield districts from the effects of an enrollment loss on their revenue limit. If enrollment stabilizes and the state returns to increasing the per pupil revenue caps, however, the recent declines will have a significant effect on the district's overall revenues.

### *Staffing Levels and Compensation*

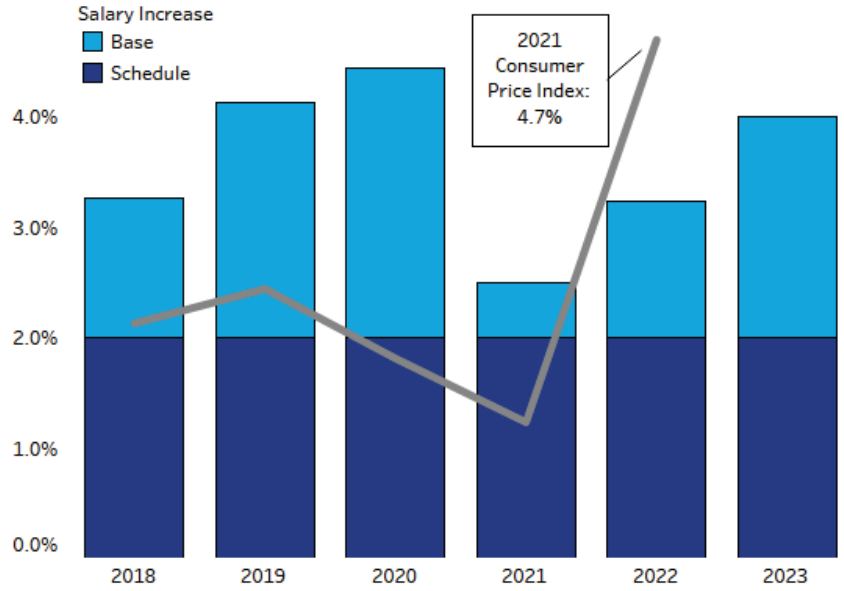
With inflation increasing rapidly and labor challenges on the rise nationally, employers such as MMSD are under pressure to increase pay to teachers and other staff. Yet, the cost of doing so is substantial for school districts, given that their operating budgets go almost entirely to labor costs. Staff pay and benefits make up four out of every five dollars spent by MMSD.

At a total cost of $9 million per year, the proposed budget would increase average pay for employees by 4%, including a 2% increase in base wages and a 2% increase in the schedule providing higher wages to those with more experience and education. That would fall short of the current rate of

inflation, which hit 8.3% in April, as well as the 4.7% increase in base wages allowed in union contracts under state law (see Figure 8). The district is not planning any major design changes to health care plans, which will rise in cost by $1.7 million in 2023.

**Figure 8: Wage and Salaries Would No Longer Outpace Inflation**

Yearly total compensation increases by school year as compared to rate of inflation in previous calendar year




Source: Madison Metropolitan School District; in 2021, employees received $3.5M in bonuses.

Overall, the proposed budget calls for a modest increase of 10 positions across the entire school district in 2023 for a total of 4,039.9 full-time equivalent (FTE) positions. However, these figures include 48 short-term positions that are funded with one-time federal pandemic aid. If the positions funded by COVID grants are removed from the totals, the school district would actually see a decrease in positions under the proposal, from 4,013.9 this year to 3,991.9 in 2023. That would be the lowest level in a decade.

## Federal Aid Funds Diverse Projects

The Madison district expects to receive and spend just over $71.1 million in federal pandemic aid combined from GEER, all three rounds of ESSER, and $465,000 for student mental health from Dane County's pandemic funds, As of March 2022, MMSD had claimed for reimbursement 13.7% of its pandemic aid, nearly equivalent to the statewide average among school districts of 13.8%. These claims lag actual spending; according to the ESSER executive summary provided alongside the 2023 budget, MMSD has actually spent nearly one quarter of its federal allocation. A small portion of these dollars flowed to private schools.

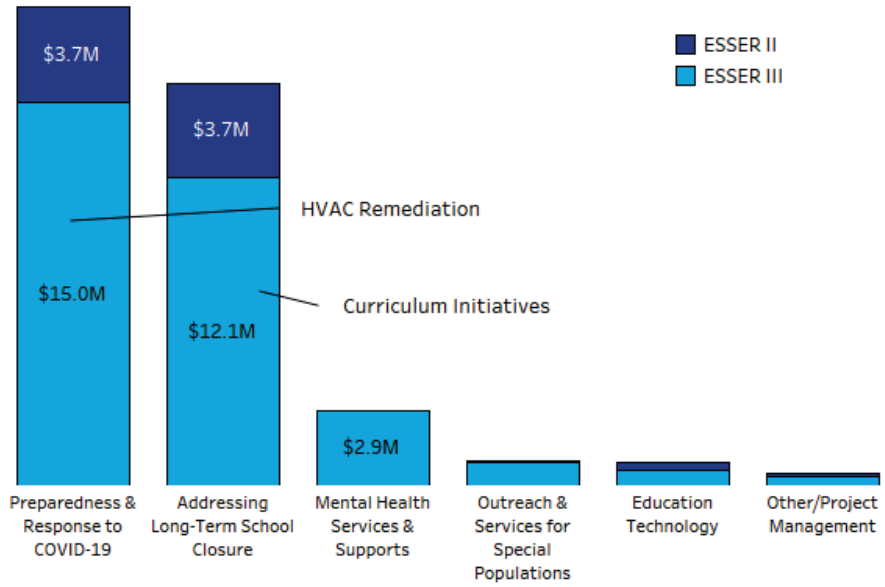
By June 30 of this year, the district expects to spend $3.8 million (97.6% of the available amount) in GEER funds and $5.2 million (98.5%) in ESSER I funds, to go along with $8.1 million (42.7%) in ESSER II funds. Included in this $17.1 million in total spending so far are items like emergency child care, food service expenses, technology and Wi-Fi access, personal protective equipment, and upgrades to air quality. (For more on the early rounds of MMSD pandemic spending, see last year's school budget brief.)

Going forward, the district finds itself with tens of millions to be obligated and eventually spent, with a final obligation deadline for the ESSER III funds of September 30, 2024. The MMSD budget lays out an additional $39.8 million in ESSER II and III funds that it plans to spend in the upcoming school year (see Figure 9), which if carried out would exhaust 84.6% of ESSER II and 75% of ESSER

III dollars. The largest single item would be $15 million in heating, ventilation, and air conditioning projects at three elementary schools (Sherman, Shabazz, and Anana).

**Figure 9: Curriculum, HVAC Priorities for Federal Funds**

Planned 2022-23 allocations of ESSER II and III monies in MMSD Budget




Source: Madison Metropolitan School District

Beyond that, $12.1 million would be split across 25 different curriculum initiatives and positions, including a push to adopt an approach to teaching reading and literacy in elementary and middle school known as the "Science of Reading." The total also includes an Early College Science, Technology, Engineering, and Math Academy, and "Achieve3000," another early literacy program. After a lengthy period of virtual schooling during the pandemic, these initiatives to boost learning may help to address the impact of COVID-19 as well as challenges that existed prior to the pandemic.

The district also would put $2.9 million toward student mental health, a response to serious concerns in this area that intensified during the pandemic. The funding also includes $1.3 million for a summer academy offering performing and visual arts programming for students. The district is likewise increasing funding by $352,000 from its own local and state sources for summer programming to help high school students retake classes that they did not pass.

However, the district's summer school budget for the 2023 school year would fall by 39% to $3.8 million from $6.2 million the year before because of the loss of ESSER funding. We have noted that MMSD summer school enrollment in 2021 remained well below 2019 levels prior to the pandemic. One important question is whether the funding in the budget proposal would be enough to reverse that concerning trend and continue addressing pandemic learning loss.

In addition to the $71.1 million detailed above, the Evers administration provided MMSD and other districts around Wisconsin with additional federal funds originally set aside for the state. Madison school officials say they will use $1.7 million of these funds for the following:

- $380,000 for listening sessions, town halls, and other activities to solicit input from students and families and build connections with the community
- $1.2 million for the district's Black Excellence programming
- $60,000 for a multicultural student summit

District officials say that they hope these efforts will serve as a response to both the isolation that students and families experienced during the pandemic as well as more longstanding barriers that some students faced prior to COVID-19.

## Debt and Capital Referendum

MMSD is also moving forward with its $317 million referendum to renovate the district's four main high schools and carry out two other smaller projects (see our 2020 and 2021 school budget briefs for more details). The district issued $106 million in debt for the project in February 2021 and another $106 million in April, with the final one-third of the debt to be issued in the 2023 school year.

So far, the district has spent some of the funds on design work but will not begin the projects in earnest until this summer when students leave the buildings. One issue to watch is whether rising interest rates add to the total cost of the financing for the projects; so far, the district is below its original estimates for interest costs, but the rates on the final one-third of the debt could prove costly.

Carrying out these projects is leading to a major increase in debt levels for the district, which on June 30, 2020, was carrying only $58.4 million in general obligation debt. However, the proposed debt payments in 2023 and subsequent years currently are projected to be less than the district's debt payments in 2021 and 2022. In addition, the district participates in the well-funded state pension plan, the Wisconsin Retirement System, which helps to limit its other long-term commitments. Last, the proposed budget would also prepay some other existing debt in the short term to free up additional spending capacity and hold down property taxes in the district's budget in future years.

# MPS 2023 BUDGET

The superintendent's proposal for 2023 provides a glimpse into the post-pandemic future for MPS by accounting for the district's ongoing revenues and expenditures *without* the inclusion of ESSER dollars. Instead, an update on plans already approved and proposed revisions for ESSER II and ESSER III expenditures totaling $730 million are contained in a separate supplement to the budget. According to the supplement, $588 million of that amount has not yet been spent.

Because of this approach, the proposed budget on its own does not convey a full picture of how MPS will invest its available resources in 2023 to meet student needs, respond to continued pandemic-related concerns, address its facilities challenges, and retain and recruit a high-quality workforce. However, by leaving out these one-time funds, the budget does convey the ongoing fiscal paradigm that district leaders will need to confront when the ESSER funds are exhausted.

This approach also is consistent with the important fiscal principle that one-time sources of revenue should not be used to plug lingering structural gaps, but instead should be employed to address extraordinary needs (like those caused by the pandemic), to build internal capacity, and to invest in areas like facilities and technology that will produce programmatic dividends and reduce expenditure pressures over the longer term.

Still, analyzing the proposed 2023 budget is a tall task because of the inherent contradiction it offers. On the one hand, it portrays a school district with immediate budgetary challenges and an alarming five-year outlook caused by stagnant revenue streams and growing inflationary expenditure

pressures; yet on the other, the budget document itself fails to account for far-reaching decisions on the allocation of hundreds of millions of federal dollars that must be spent by fall 2024. We provide perspective on that contradiction and highlight key components of the proposed budget and supplemental ESSER spending plan in the pages that follow.

## Revenues Flatten

At first glance, the proposed budget's revenue picture raises substantial concern, as total revenues shrink by $746.5 million (36.0%) when compared to the 2022 adopted budget. As shown in Table 1, however, the decrease stems mostly from a huge ($735 million) decline in categorical funds, which reflects the inclusion of the ESSER funds in the final 2022 budget despite the fact that they are available for expenditure through September 2024.[2]

**Table 1: MPS revenues by fund, 2022 vs. 2023 (in millions)**

| Fund | 2022 Budgeted | 2023 Proposed | 2022 to 2023 % change |
|---|---|---|---|
| School operations | $1,051.5 | $1,042.4 | -0.9% |
| Categorical | $926.9 | $191.9 | -79.3% |
| Construction | $4.0 | $2.9 | -27.5% |
| Nutrition | $56.5 | $54.4 | -3.7% |
| Extension | $37.3 | $38.2 | 2.1% |
| **Total** | **$2,076.3** | **$1,329.8** | **-36.0%** |

Source: MPS 2023 proposed budget

Still, it is significant and concerning that revenues for school operations (minus the ESSER dollars) are expected to decline by $9.1 million (0.9%) in 2023. The $1.04 billion school operations fund is the area of the budget that is most directly related to instruction, and its key source of support is the combined amount of state equalization aid and property taxes allowed under state revenue limits.[3] This combined amount, which represents 82% of school operations fund revenues, is budgeted at $853.7 million in 2023. That is a decline of $12.8 million (1.5%) from the 2022 adopted amount, and it largely reflects the impacts of several years of declining school enrollment and how that factor is treated by the complicated school aids and revenue limit formulas. The decline is partially offset by a $3.5 million budgeted increase in state special education aids, which is linked to the nearly $50 million increase for those aids statewide that was referenced earlier in this report.

The precise breakdown between state school aids and property taxes will be determined in the fall when state aid figures become available. However, for now, the budget assumes state equalization aids will remain flat at $593.5 million while property tax revenues will fall by $12.8 million to $260.2 million. As discussed earlier in this report, an ironic outcome of MPS' successful April 2020 referendum – which allowed the district to exceed state revenue limits for operations by $57 million in 2021 and an additional $20 million in 2022, $7 million in 2023, and $3 million in 2024 – was its ability to garner greater amounts of state school aids by virtue of the formula's treatment of its additional spending. Because revenue limits remained flat in the current state budget, the pressure

[2] The decrease in categorical funds also includes a $11.8 million decline in state categorical funding. According to MPS budget officials, that decline is linked to the fact that three major state grants (DPI 21st Century Learning Centers, DPI Comprehensive Supplement and Improvement, and Milwaukee Partnership School Foundation) have only had partial amounts of their funding guaranteed for 2023.

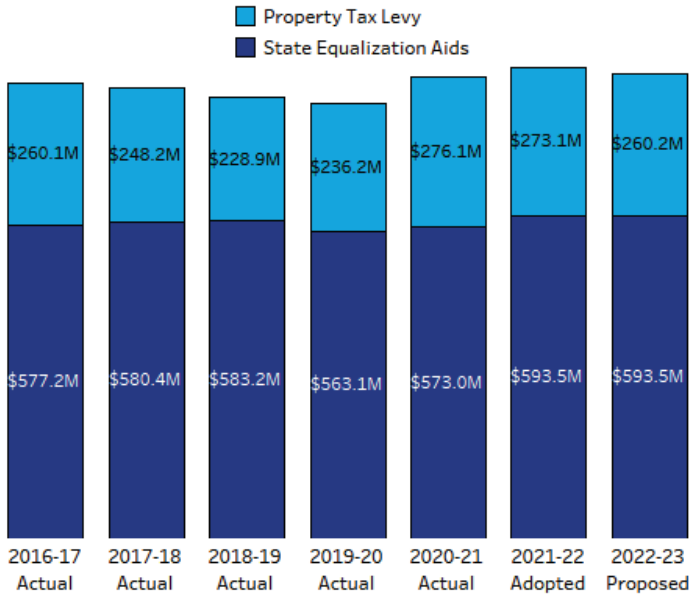
[3] State revenue limits reflect allowable amounts generated by general state aid (equalization, special adjustment, integration, and high poverty aids) and property taxes. MPS budget documents cite the combined amount of equalization aid (by far the largest source of general state aid) and property taxes as a revenue line item in the "Summary of All Funds" while also citing "Other State Aids." Consistent with that approach, in this report, when we highlight MPS' revenue limits, we are generally referring to the combined amount of equalization aids and property taxes.

on taxpayers is thereby reduced in MPS' proposed budget despite the referendum, with property taxes roughly equal to what they were in 2017.

As shown in Figure 10, this decline in combined equalization aids and property tax levy in 2023 places MPS leaders in the familiar position of seeing their primary source of school operations revenue decline from year to year. This trend was interrupted as intended in the 2021 and 2022 budgets as the referendum was phased in. But notably, the annual decline has now re-emerged **even after factoring in the $7 million boost provided by the referendum next year**.

**Figure 10: Main MPS Revenues Drop After Increases**

MPS general state aid and property tax revenue, 2017-2023



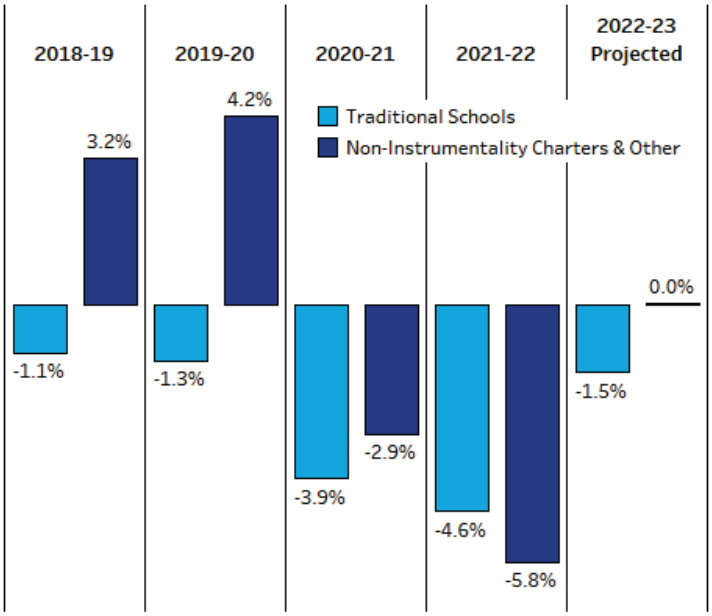

Source: MPS 2023 Proposed Budget, MPS 2021 and 2022 Adopted Budgets

The culprit for this seemingly counter-intuitive development – which has foreboding implications for the district if it continues – is MPS' declining enrollment. The number of students in a district is a key factor in the revenue limit calculation, and while short-term drops caused by factors like the pandemic are countered by the use of three-year averages and "hold harmless" provisions, longer-term decreases can take a heavy fiscal toll over time.

That has been the case for MPS. Declining enrollment has been a huge challenge for years, falling from nearly 100,000 in the early 2000s to just 68,404 in the fall of 2021. The problem has worsened considerably since the onset of the pandemic, as shown in Figure 11, with a drop of 6,229 students (8.3%) at MPS sites from fall 2019 to fall 2021. Much of the decline occurred in traditional MPS schools, but the district's non-instrumentality charter schools also saw a 533-student (6.4%) drop in fall 2021.

**Figure 11: MPS Enrollment Declines Again in 2021-22**

Change in enrollment from prior year in MPS, by type of school




Source: MPS 2023 Proposed Budget, MPS 2022 Adopted Budget

The budget projects a slowdown in the enrollment decline at MPS school sites in the 2023 school year (1.3%) but nonetheless forecasts continued declines over the following four years. By the fall of 2026, enrollment at MPS

sites is projected to total 64,736, or 5.9% fewer students than in the fall of 2021 and 14.3% fewer than in 2017.

While it is impossible to know what will unfold in the next two state budgets with regard to revenue limits and state school aids and whether any changes to allocation formulas will be enacted, a continued decline in MPS enrollment likely will extend the trend of stagnant revenues well into the future and well past the date when the ESSER funds will be exhausted. Key questions, therefore, are whether MPS leaders can effectively use the ESSER dollars to ramp down future cost pressures; and whether the loss of students might allow them to generate savings in areas like facilities and workforce that will help counter at least some of the negative impacts resulting from the lack of revenue growth.

One final note about budgeted 2023 revenues is the decline in property tax levy support for the construction fund, from $4.0 to $2.9 million. Previous WPF budget briefs have expressed concern about relatively meager allocations to the construction fund given the district's vast facility needs and the risk that an insufficient commitment to maintenance and repairs can create larger capital spending needs in the future. However, that concern is alleviated for next year given extensive use of ESSER funds to address facility needs as well as the carryover of previously allocated construction fund monies into 2023.

## Inflation Spurs Greater Expenditure Pressures

The inclusion of ESSER funds in the current year budget makes a broad comparison of 2023 proposed expenditures to 2022 budgeted amounts largely irrelevant. However, comparing 2023 proposed expenditures to 2021 actual amounts is more useful (see Table 2). Doing so reveals the impact of the 2020 referendum (the effects of which first materialized in the 2021 budget) as well as important salary and benefits decisions and their related impacts on both school and central office spending.

**Table 2: MPS all funds expenditures by function, 2021 to 2023 (in millions)**

| Expenditures | 2021 Actual | 2022 Budget | 2023 Proposed | 2021 to 2023 % Change |
|---|---|---|---|---|
| Schools | $947.9 | $1,187.5 | $1,083.8 | 14.3% |
| Central Offices | $207.0 | $845.2 | $236.1 | 14.1% |
| Other Accounts | $170.4 | $54.0 | $20.3 | -88.1% |
| Inter-department & Inter-fund* | $-6.3 | $-10.4 | $-10.4 | -65.1% |
| **Total** | **$1,319.0** | **$2,076.3** | **$1,329.8** | **0.8%** |

Source: MPS 2023 proposed budget

* These amounts are shown as negative numbers because they reconcile certain transfers between funds to avoid double-counting.

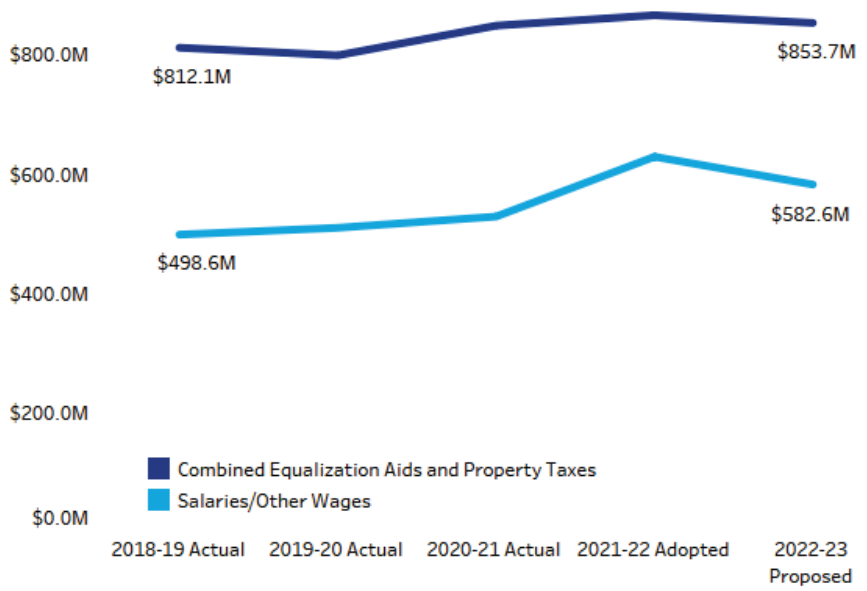
The table shows 14% increases in school and central office spending over the two-year period, which are linked primarily to the distribution of increased salary and benefit costs across MPS schools and central office functions. One contributor to those increased costs is the comprehensive changes to the district's compensation structure adopted by MPS leaders in 2019, including increased base pay amounts and new salary ranges and steps for most position classifications. A year later they also approved early retirement changes 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.

These moves have been defended by MPS officials as critical to their efforts to retain and recruit a high-quality teacher workforce, and they have been accommodated since their enactment by the successful referendum and the decision to allocate nearly half of its additional revenues to support educator salaries and benefits (additional details on use of the referendum monies are provided in the next section). However, a new challenge to MPS' retention and recruitment efforts has now emerged: the high rate of inflation.

The 2023 proposed budget includes a 4.7% cost-of-living adjustment (COLA) for all MPS employees, which mirrors last year's increase in the CPI. This inflationary adjustment comes with a hefty annual price tag of $20.1 million and, while it is consistent with the district's emphasis on retaining and recruiting teachers and other staff, it also poses a considerable challenge given the district's stagnant revenue growth. In fact, as shown in Figure 12, MPS' salary expenditures have grown by $84 million (16.8%) from 2019 to 2023, an amount that has exceeded the rate of growth in the district's combined state equalization aids and property taxes by a wide margin. Ominously, the rate of inflation has continued to grow, which likely intensifies the pressure on MPS leaders to increase salaries at a pace that exceeds revenue limit growth in future years.

**Figure 12: Salaries Increase At Faster Pace than Major Revenue Sources**

MPS major revenues vs. salaries and other wages, 2018-19 to 2022-23




Source: MPS 2023 Proposed Budget

*Staff vacancies key to balancing the 2023 budget*

A key story of the proposed budget is its ability to absorb the $20.1 million increase for COLAs in 2023 – as well as salary increases associated with "step increases" for some employees as they progress through their pay ranges – because of the district's large number of anticipated staff vacancies. Officials report the district currently has 244 teacher vacancies as well as dozens more in other areas. In fact, budget officials report that salary and benefit savings from vacant positions in the current budget may exceed $120 million, which will allow MPS to build its fund balance or dedicate resources to pay down liabilities or address other needs.

The proposed budget banks on an assumption that a sizable proportion of those vacancies will extend through the 2023 school year, as it ramps up the salary and benefit savings typically budgeted for "vacancy and turnover" by $38.2 million (to a total of $58 million). This action – which is not discussed in detail in 2023 budget documents – allows the district to offset the COLA increase

and meet other "costs to continue" despite its paltry revenue growth. (It is also a major contributor to the sizable drop in the "Other Accounts" line from 2022 to 2023 that is shown in Table 2).

Budget officials acknowledge there is risk associated with this move, as the classroom impacts associated with these vacancies have not yet been assessed and the district has not abandoned its efforts to fill many of them. Yet, in light of the extremely tight labor market, they expect the assumption to pan out or even be exceeded.

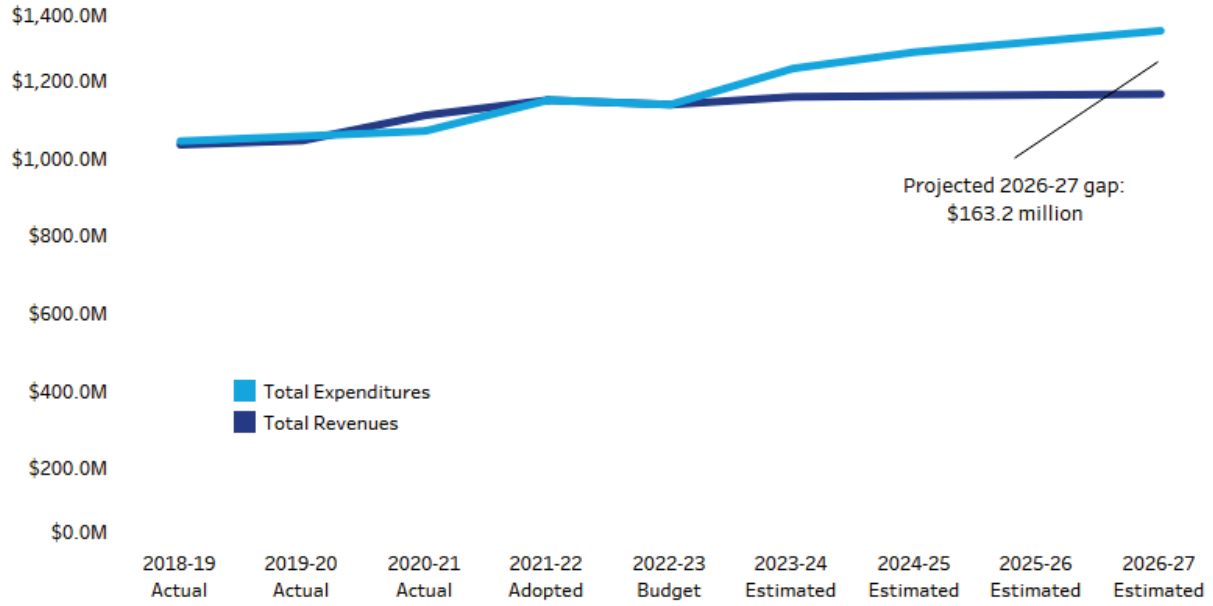
Finally, it should be noted that despite the vastly enlarged assumption on vacancy savings, the total number of authorized positions in the proposed budget is not reduced. In fact, per an overview prepared by budget officials, when the accounting impacts of the ESSER funds are removed, the 2023 budget shows a total increase of 37 (0.7%) full-time equivalent (FTE) teacher positions and 28.5 FTEs (0.3%) overall.

## Five-Year Forecast Still Ominous

Of course, balancing a budget on vacancy savings is not an ideal circumstance, and MPS officials say they hope vacancy levels will return to normal after next year. That assumption is included in the district's long-term five-year fiscal forecast, which shows a growing structural gap that starts at $73 million in 2024 and increases to $163.2 million in 2027 (see Figure 13).

**Figure 13: Spending Projected to Outpace Revenues**

MPS total revenues vs. expenditures, projected through 2026-27




Source: MPS 2023 Proposed Budget

The main expenditure drivers of the structural deficit are salaries and benefits. Without a large projected vacancy savings, salary expenditures are projected to grow by $34.3 million (7.0%) in 2024 and fringe benefits by $45.7 million (18.1%). The sizable fringe benefit increase also is attributed to factors like health care inflation and the need to substantially boost the employer contribution for the portion of MPS employees covered by the city of Milwaukee's pension fund.

The five-year projection also shows increased expenditure pressures for purchased services that result from the need to resume healthy spending from the construction fund for contracted maintenance activities in 2024. Investments from the fund for contracted maintenance are decreasing in 2022 and 2023 because the district lacks the capacity to administer as many contracted projects in those years as it seeks instead to manage major ESSER-funded capital projects.

Meanwhile, on the revenue side, although the $87 million in referendum monies remain in the budget, the annual growth from that measure will cease once the four-year phase-in is completed. Consequently, when accompanied by conservative assumptions on the annual growth in revenue limits, total revenues are projected to remain largely flat, growing by only $27.1 million (2.4%) over the five-year period.

A glimmer of good news for the district has been its recent ability to use vacancy savings and flexibility realized from the use of ESSER dollars to grow its year-end fund balance, which has been precariously low for years. The district's overall fund balance grew from $103.4 million to $156.1 million (51.0%) from 2020 to 2021 (to about 11.8% of total expenditures that year), while the balance in its school operations fund nearly tripled from $16.8 million to $49.3 million (4.9% of school operations spending that year). As mentioned above, continued high numbers of vacancies likely will offer an opportunity to grow these balances even further as the 2022 fiscal year comes to a close.

These healthier fund balances may provide some limited and temporary cushion in future years as MPS adjusts to the end of annual revenue limit increases from the referendum and as ESSER funds are exhausted. Yet, budget officials point out a perverse irony: they must exercise caution in allowing unanticipated savings to continue to fall to the year-end fund balance because of the threat that the school aids formula will penalize the district with reduced allocations if its overall expenditures decline.

## Referendum Priorities Remain Consistent

Milwaukee voters passed a far-reaching MPS referendum in April 2020 in an effort to help address a growing imbalance between the district's annual expenditure needs and the revenue available to meet those needs. The referendum was also touted as a mechanism to invest in priorities that would "increase equity and excellence in our schools and promote positive educational, social, and emotional outcomes for our community's children."[4]

As noted earlier, the additional revenue limit capacity granted by the referendum is phased in over four years. A supplement to the 2023 MPS budget summarizes the $77 million incorporated into the 2021 and 2022 budgets and also lays out the intended use of the additional $7 million granted for 2023.

As in previous years, "Attracting and Retaining Certified Educators" would receive the most referendum funds at $39.7 million, a 9.3% increase over last year. This category would account for

[4] See supplement to proposed MPS budget at https://mps.milwaukee.k12.wi.us/MPS-English/CFO/Budget--Finance/MPSReferendum.pdf.

47.3% of the proposed $84 million referendum funds for 2023 (see Figure 14). Nearly all (96.5%) of this category's expected costs would go toward salaries and benefits for staff, helping to pay for both the 4.7% COLA noted above and the salary schedule increases embedded within the compensation structure adopted by the district in 2019. In addition, $8.1 million of the salary and benefit costs would go toward the district's Other Postemployment Benefits (OPEB) obligations. The remaining dollars would fund additional human resources staff, resources, travel, and professional development.

**Figure 14: Salaries, New FTEs Headline MPS Referendum Spending**

Proposed FY23 Budget Referendum Spending by Bucket and Category

| | Salary and Benefits | Additional Staff FTEs | Materials, etc. | Facilities | Professional Development | Other* |
|---|---|---|---|---|---|---|
| Attracting and Retaining Certified Educators | $38.31M | $0.71M | $0.50M | | $0.20M | |
| Advanced Academics | | $2.13M | $0.23M | | $0.32M | $12.03M |
| Professional Support Staff | | $7.78M | $0.21M | | | $0.48M |
| Early Childhood/Class Size | | $3.24M | $0.61M | $0.50M | $0.17M | |
| Library, Art, Music, Physical Education | | $11.97M | $1.82M | $0.22M | $0.37M | $0.49M |
| Career and Technical Education | | $0.96M | $0.12M | $0.60M | $0.04M | |

Source: MPS 2023 Proposed Budget. *Includes fiscal management, curriculum development, band/music/choir instruments, purchased services, and books.

Additional spending on music, library media, physical education, and visual art would make up the next largest portion of the 2023 referendum budget at $14.9 million (17.7%), a notable increase over last year that would go mainly toward new positions. The district would also spend $14.7 million to expand access to advanced educational programming opportunities like Advanced Placement, International Baccalaureate, bilingual, and Montessori programs, accounting for 17.5% of the 2023 referendum funds.

The remaining 2023 referendum spending would be slated for professional support staff like school counselors, psychologists, social workers, and nurses (10.1%); early childhood education, including reduced class sizes (5.4%); and comprehensive career and technical education (2.0%). Additional positions account for the majority of the proposed spending.

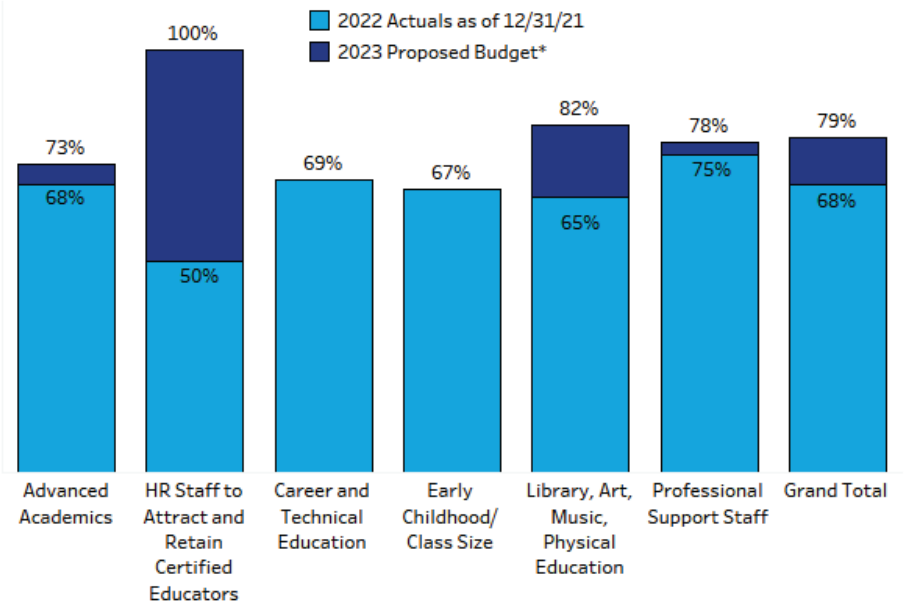
While it remains too early to measure the impact of the referendum for MPS students, this year's referendum supplement provides a useful indicator: a comparison of budgeted to filled FTE positions funded by the referendum. For as long as these additional positions remain empty, their potential to positively affect students also remains unfulfilled.

The 2023 budget proposes 283.5 FTEs to be funded through the referendum across the district's six priority funding areas. We cannot predict what percentage of these positions will be filled in 2023, but MPS numbers allow for estimating a reasonable range (see Figure 15). Optimistically, if the district successfully hired for all of the FTEs newly added for 2023, MPS would have a 78.6% fill rate for all referendum positions. Pessimistically, if the district was not able to hire for a single new FTE in 2023 and solely retained those FTEs already hired through the end of last calendar year, MPS would have a 67.8% fill rate for all referendum positions.

Should the more pessimistic scenario come to pass, MPS officials may eventually face a choice between, on the one hand, maintaining a high vacancy rate while holding out for new hires; and, on the other hand, adjusting these investments to find alternative ways of positively affecting students beyond hiring additional staff. Critical to this calculation will be an analysis of the district's declining student enrollment and consideration of how the district may retrain or otherwise leverage existing staff. As discussed earlier, the district's current strategy has been to use savings from unfilled positions to bolster its fund balance or dedicate resources to address specific needs.

**Figure 15: Some Referendum Positions Left Unfilled**

Percentage of positions filled by referendum area, 2022 Actuals vs. 2023 Proposed




Source: MPS 2023 Proposed Budget. *Assumes that all new positions will be filled.

## Federal Funds Support Wide Range of District Priorities

As discussed previously, the 2023 proposed budget on its own does not include any federal relief funds. The district instead issued a budget supplement that summarizes MPS' expenditures to date of ESSER II and ESSER III funds, in addition to its proposed use of the remaining dollars. The MPS school board previously approved budgets for both ESSER II and ESSER III, so the supplement functions as an update on the implementation of those plans.[5]

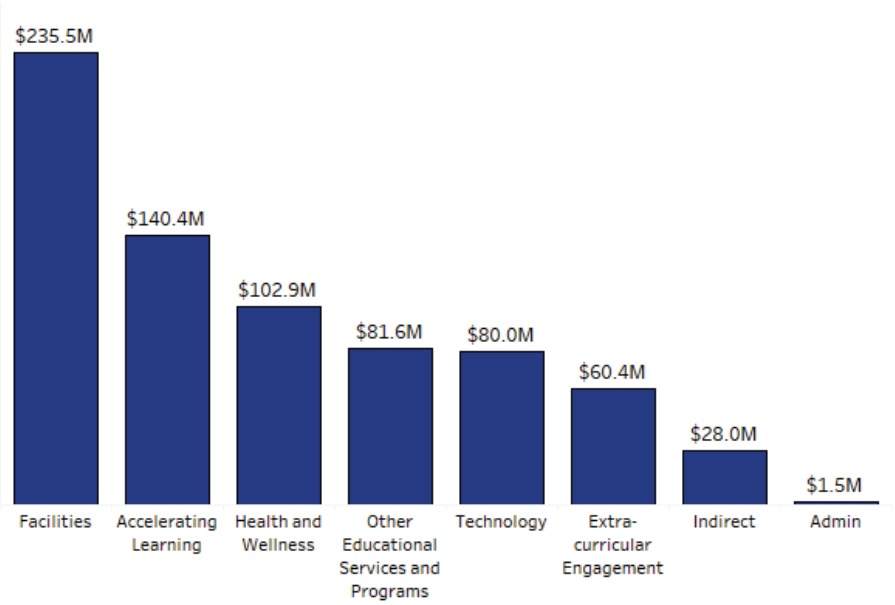
The document accounts for $730.3 million in expected ESSER II and ESSER III allocations from the federal government, not counting a small increase in ESSER III recently authorized by DPI and the U.S. Department of Education. These dollars come on top of $66.8 in GEER I and ESSER I allocations to MPS, although a portion of those allocations flowed to private schools. As of March 2022, MPS had claimed for reimbursement 6.6% of its total allocation, behind the statewide average of 13.8%. The district's lag is partially due to pending DPI approval of its ESSER II and III applications and does not reflect the full extent of its pandemic spending thus far. According to the district's own record of expenditures and encumbrances, MPS has spent or obligated 19.4% of the as-yet-unclaimed ESSER II and III funds. ESSER II funds must be obligated by September 30, 2023 and ESSER III funds by September 30, 2024.

[5] See supplement to proposed MPS budget at https://mps.milwaukee.k12.wi.us/MPS-English/CFO/ESSER/EmergencyEducationReliefFundSupplement.pdf.

In its ESSER II planning process, MPS teams identified three priority areas for spending: accelerating learning, health and wellness, and facilities. With the additional ESSER III funds, MPS has added three more areas: technology, extracurricular engagement, and administrative costs. The district's ESSER II and ESSER III plan also calls for spending on indirect costs and "other educational services and programs," the latter of which constitute funds set aside for MPS's non-instrumentality charter schools and partnership schools.

**Figure 16: Facilities Top MPS ESSER Planned Spending**

Designated ESSER II and III funds by category




Source: MPS 2023 Proposed Budget

As was the case in last year's ESSER II budget supplement, facilities spending is the largest proposed category at $235.4 million, or 32.2% of MPS's ESSER II and III allocation (see Figure 16). The majority (62.2%) of the planned or executed expenditures in this category are for air quality improvements within MPS buildings, both for COVID mitigation purposes and general upgrades. ESSER III dollars set aside for remodeling school buildings and constructing school additions account for an additional 27.6% of the facilities category, with plumbing (4.8%), classroom furniture and locker replacements (3.1%), and electrical (1.8%) rounding out the category.

Efforts to accelerate students' learning would make up the next largest category for the ESSER dollars, at $140.4 million or 19.2%. MPS divides these proposed investments into four groupings: direct services to students (40.6%), high-quality materials (37.3%), professional development (15.2%), and parent/family engagement (6.9%). Each grouping features some COVID-specific allocations, like $10.5 million for extended learning, and some longer-term allocations, like a combined $35.9 million for curriculum adoption and support materials for social studies, science, and writing.

Rounding out the top three budgeted categories is health and wellness, containing $102.8 million of proposed investments or 14.1% of MPS' ESSER II and III allocation. MPS again divides these investments into four groupings: physical health/COVID (43.3%), social emotional learning (33.2%), mental health (19.5%), and physical education and experiential learning (4%). As in other categories, health and wellness includes both items directly related to COVID, like $8.9 million for personal protective equipment and supplies; and indirect or unrelated items, like $4.6 million for design and construction of a centralized nutrition professional development center.

Other categories of proposed spending include other educational services and programs provided to MPS-contracted schools ($81.6 million, 11.2%), technology ($80.0 million, 11%), extracurricular engagement ($60.4 million, 8.3%), indirect ($28 million, 3.8%), and administrative ($1.5 million, 0.2%).

*Use of short-term funds for largely short-term expenses*

Much of the proposed ESSER budget appears to be comprised of one-time investments that would not leave holes in the MPS operating budget when the federal funds expire. The planned spending on new curricular materials, facilities, and technology infrastructure would upgrade both instruction and operations, although educational technology devices and software often need to be replaced every three to five years, and subscriptions and licenses typically require renewal. The budgeted funds for professional development represent a one-time investment in educator capacity that could reap benefits above those that might be realized simply by adding more bodies. Specific interventions to support students' immediate recovery from COVID potentially also could be ramped down over time if they are effective in addressing student needs.

The proposed use of ESSER dollars to establish or maintain a number of FTE positions might at first raise some eyebrows, since personnel costs can be especially difficult to defray without a steady funding source. Some of this concern may be valid, especially for the proposed central office staff in information technology, the Department of Black and Latino Male Achievement, and a new department for women and LGBTQIA+ students. Other positions like music teachers, library media specialists, student support positions, and nurses, however, overlap with referendum priorities. MPS has proposed using ESSER dollars to accelerate the phase-in of these positions, with the associated salary and benefit costs eventually covered by referendum dollars. MPS officials have also expressed hope of retaining all positions even past the ESSER expenditure deadline.

*Placing big bets on student recovery efforts*

The ESSER budget supplement also provides details on the district's strategy for helping students recover from COVID-19. The American Rescue Plan Act requires districts to set aside at least 20% of ESSER III funds to mitigate learning loss and "ensure that such interventions respond to students' academic, social, and emotional needs and address the disproportionate impact of the coronavirus." MPS lists $171 million worth of spending in this area, or 33.8% of its ESSER III allocation.

The largest items include $20 million for Chromebooks and related data and accessories; $15.2 million for fiber optics upgrades; $11.9 million for instructional technology hardware; $11.6 million for the online learning resource Edgenuity; $10.8 million for educational services and programs at MPS-contracted schools; $9 million for tutoring; $8.5 million for instructional subscriptions; and $8.4 million for school-based family engagement activities.

Whether these allocations fulfill their intent and successfully support student recovery remains to be seen. Few public datasets are available to illuminate the full impact of the pandemic on MPS students, but those that are available locally, statewide, and nationally paint a grim picture of its academic and socioemotional toll. For a limited time, funds are available to offer transformative interventions for students to close these gaps. The onus thus falls upon local officials to identify leading indicators of impact and reallocate funds or otherwise adjust strategy as necessary to meet student needs.

# CONCLUSION

Wisconsin schools and the state's two largest districts have made it through two unprecedented years of the pandemic but have not come through them unscathed. Students clearly have fallen behind in learning and face greater mental health challenges, yet districts lack the data to fully assess these setbacks. Staff shortages also complicate the districts' efforts.

For now, MPS and MMSD are managing their financial pressures and making some targeted investments that could help address some of their immediate and long-term challenges. They have been able to pay for costs associated with virtual schooling and limiting the spread of COVID, salary increases to respond to escalating inflation, improvements in their facilities, and measures such as new reading materials and curriculum to address learning loss and longstanding inequities. These investments were made possible by a massive surge in federal pandemic aid and large referenda that provided an infusion of resources that would have been unthinkable only a few years ago.

Yet the future also offers reason for concern about both districts, and particularly for MPS. Both federal aid and the annual revenue growth from the districts' operating referenda essentially will run out in 2024. MPS is already relying on higher staff vacancies to balance its books while MMSD faces the continued erosion of its already modest state aid levels. Meanwhile, the Legislature provided no increase in state revenue limits in the current state budget, effectively capping the local property taxes and state aid going to districts at a time of mounting inflation.

Looking ahead, a substantial pandemic enrollment drop will limit the finances of both districts for years to come. Given the high rate of inflation, both would benefit from increases in state aid and revenue caps in the next state budget, but even with the state's substantial surplus, lawmakers have not shown any consensus to do so.

Given all these factors, it is doubtful the two districts can continue to meet rising student needs, increase staff compensation to match inflation, fill key positions, and balance their budgets in 2025 and beyond without some additional steps, many of which lie outside the control of school leaders. The potential remedies include overhauling school operations to find efficiencies through such actions as school closures or further service reductions, putting off new spending on staff salaries and facilities, convincing state officials to increase revenue limits, seeking another referendum, or somehow luring back some of the families who have opted for private or home school options. All of these options come with difficulties and tradeoffs, and not all of them are likely to be feasible politically at a time of ever greater polarization.

Going forward, both districts will likely tread an increasingly difficult path as they seek to balance their budgets while producing the graduates who are increasingly needed in today's tight labor markets. The stakes for students, staff, and the broader communities are high, and we hope this brief informs school and local leaders as they deliberate on next year's budget and consider how to address the challenges that seem poised to emerge in the years ahead.