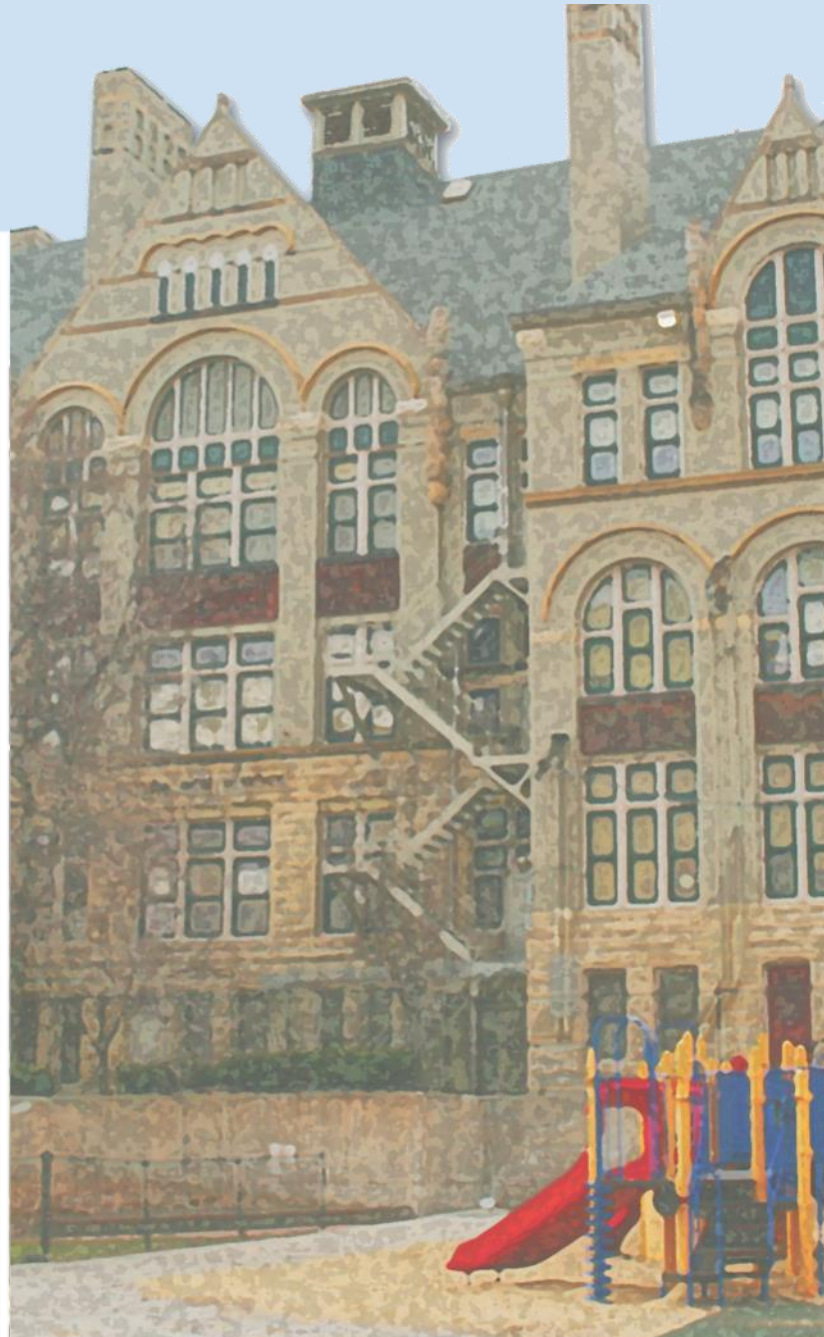


BUDGET BRIEF

UP IN THE AIR

School Budgets Hinge on Decisions in Madison



WISCONSIN
POLICY FORUM



UP IN THE AIR

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May 2023

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This analysis of the Milwaukee Public Schools' and Madison Metropolitan School District's 2024 proposed budgets refers to the budgets recently submitted by the two superintendents to their respective school boards. The budgets cover the school districts' 2024 fiscal year, which takes effect on July 1, 2023, and runs through June 30, 2024. 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 2024 will be established at that time.



INTRODUCTION

As school district leaders look to their 2024 budgets and beyond, many see that a key lifeline is fraying and about to break. Federal pandemic aid that was first approved three years ago must be fully committed by September 2024, giving districts one more year of COVID-19 relief before their budgets tighten. Many of them – including both the Madison Metropolitan School District (MMSD) and Milwaukee Public Schools (MPS) – also passed referenda to increase property taxes and spending on operations in recent years and are reaching the full implementation of those measures, which means they lose yet another tool at a time when inflation remains high, staffing challenges have grown, and student learning loss remains from the pandemic.

Meanwhile, officials in the state Capitol have yet to make clear how they will reshape school finances as part of the ongoing state budget process. For the past two school years, the state has provided no increase to the per pupil revenue limits that cap the key sources of local school funding. Gov. Tony Evers wants to make up for that by providing the largest increases in the revenue limits since they were put in place in the 1993-94 school year and a huge boost in state aid to schools. GOP lawmakers have a sizable state surplus to work with but have made clear they oppose such large increases. Though there is a potential for compromise, the two sides still appear relatively far apart.

This split screen – with its certainty that federal aid is expiring but uncertainty about state revenue limits and aid – will make for a gripping political drama as the state budget is written in the coming weeks. Yet the outcome of this storyline will be all too real for districts, teachers, students, and property taxpayers. For example, for the last two years of flat revenue limits, MPS and MMSD largely avoided using the temporary COVID-19 aid for ongoing expenses such as paying teachers. Yet as the state's two largest districts budget for no increase in state revenue caps next year, they are proposing for now at least a greater reliance on the one-time pandemic relief funds for ongoing spending – an ominous sign.

In this new brief on school district budgets for the 2023-24 school year (we refer to it here as 2024), we provide an overview of the current state of school finances in Wisconsin, as well as more detailed analyses of the proposed budgets for MPS and MMSD, which face challenges common to many districts. For example, both districts are still coping with continued declines in enrollment, staff vacancies, student learning loss and mental health concerns, and the coming end of their federal COVID-19 funds and referendum phase-ins. At present, their budgets also show some differences, including in their use of the pandemic aid and their proposed pay increases for staff.

We open our brief with consideration of statewide K-12 issues that will be pertinent to lawmakers as they deliberate on the state's financial plan for schools and how to use the overall surplus in the upcoming two-year budget. We hope these insights will provide important perspective for state and local leaders as they consider how to address school district funding and challenges in the days to come.



A STATEWIDE LOOK

In this section, we look at the big picture for school finances for districts across Wisconsin, laying out the statewide impact of major forces such as the still unfinished state budget and the expiration of federal pandemic aid. Subsequent sections will then provide greater detail on the proposed 2024 budgets for the Madison and Milwaukee school districts.

Federal Aid Flows to Expire

As the Forum has previously [discussed](#), billions of dollars in one-time federal pandemic aid have flowed into the state's school districts since 2020. The total includes \$204.6 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, \$685.4 million from the Consolidated Appropriations Act (CAA), and \$1.49 billion through the American Rescue Plan Act (ARPA) and \$110 million that was awarded to the state but passed on by Gov. Tony Evers to school districts.

These relief monies included the three rounds of Elementary and Secondary School Emergency Relief (ESSER) funding and the Governor's Emergency Education Relief (GEER) Fund and were intended to help districts cope with the pandemic. Funding from the final round must be spent or obligated by September 2024 – meaning the upcoming annual budget for schools will be essentially the last one with any new spending of this aid.

The Department of Public Instruction (DPI) has tracked how districts have been spending their ESSER funds, which are used to reimburse districts for spending that has already taken place. Using DPI data that have been updated through February 2023, we found that, excluding MMSD and MPS, Wisconsin's school districts and independent charter schools have claimed reimbursements for 98.8% of their GEER and first ESSER allocation, 75.4% of their second ESSER allocation, and 16.8% of their third ESSER allocation. With MMSD and MPS included, those rates drop to 98.0% for GEER and ESSER I, 50.3% for ESSER II, and 10.8% for ESSER III.

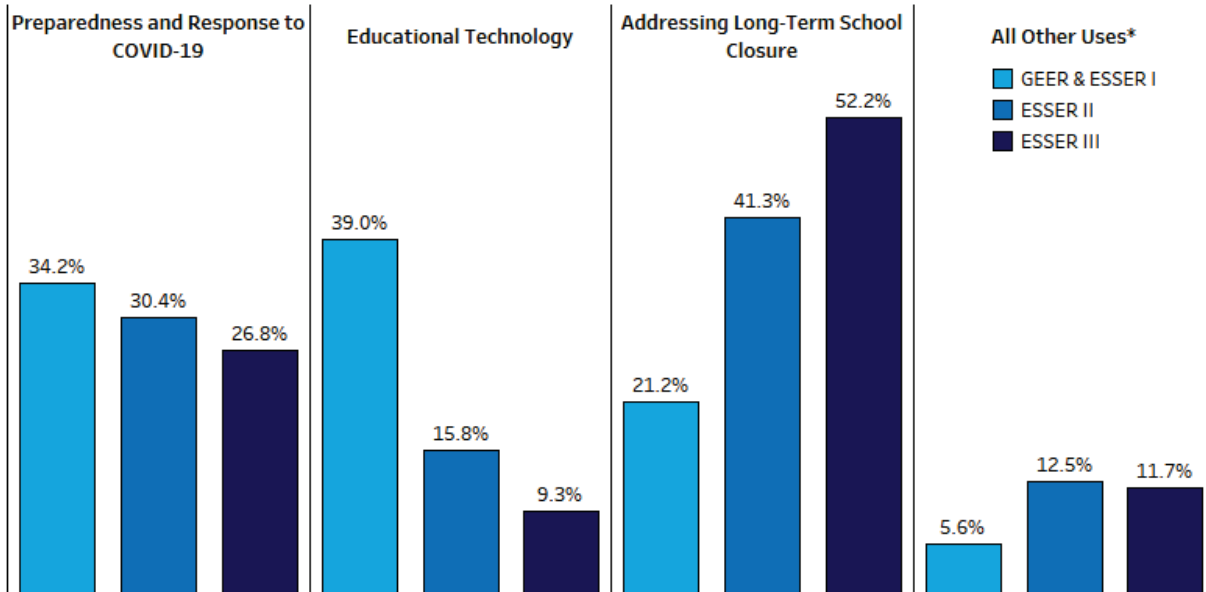
DPI has approved statewide claims of just \$707.8 million of the \$2.39 billion provided to districts, or 29.7%, leaving up to \$1.7 billion remaining. However, given the lag between districts' use of the funds and their subsequent claims for reimbursement, these numbers likely do not yet portray how much local schools have actually spent and committed. Any remaining monies must be obligated within 16 months.

As of the February update, DPI's numbers show that both MMSD and MPS have claimed less than 30% of their total allocations. However, district officials note that significant amounts of spending have happened since that time, and a large portion of unclaimed monies have already been spent or committed. For more on how MMSD and MPS have been spending this one-time federal aid, see their respective sections in this brief.

The ways in which ESSER dollars have been spent has changed significantly over time (see Figure 1 on the next page). Initial grants through GEER and ESSER I prioritized educational technology to facilitate virtual schooling, accounting for 39.0% of monies claimed. Meanwhile, more than a third of that initial allocation was claimed for preparedness and response to COVID-19 – items like personal protective equipment and masks – and 21.2% was claimed for addressing long-term school closure.

Figure 1: Addressing School Closure Becoming Predominant Use of ESSER Funds

% of spent federal aid monies dedicated to each category by round, all Wisconsin districts



Source: Wisconsin Department of Public Instruction. *Includes addressing afterschool and summer learning, continued staff employment, mental health services and supports, outreach/service delivery to special populations, and indirect uses.

As time has gone on, the focus on responding to COVID-19 specifically has declined slightly. Of the monies already claimed, districts have dedicated 30.4% of ESSER II dollars and 26.8% of ESSER III to disease response and preparedness. The focus on educational technology has declined more significantly: of what has been claimed, just 15.8% of ESSER II and 9.3% of ESSER III has gone to purchasing items like laptops and video conferencing technology.

The spending area that has grown the most is addressing long-term school closure, now accounting for 41.3% of ESSER II and 52.2% of the ESSER III amounts claimed. This broad category includes interventions to help students cope with a number of challenges from the pandemic, including in some cases being out of traditional classrooms for a long period of time.

State Revenue Freeze Limiting School Property Taxes

In response to the federal pandemic aid, lawmakers kept tight limits on school district funding in both the 2022 and 2023 school years. 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. The freeze has widened the gap between these relatively stagnant core school revenues and rising inflation.

When paired with increases in state general school aids, the current revenue limit freeze has restricted property tax increases for the past two years. The rise in gross school property taxes was 1.5% on December 2022 bills and 0.3% on December 2021 bills, making this two-year budget cycle one of the tightest for K-12 levies of the past two decades (see Figure 2 on the next page). The increases would have been even smaller if not for relatively high levels of school referenda over the past several years in which many voters opted to raise their own taxes to increase school funding.

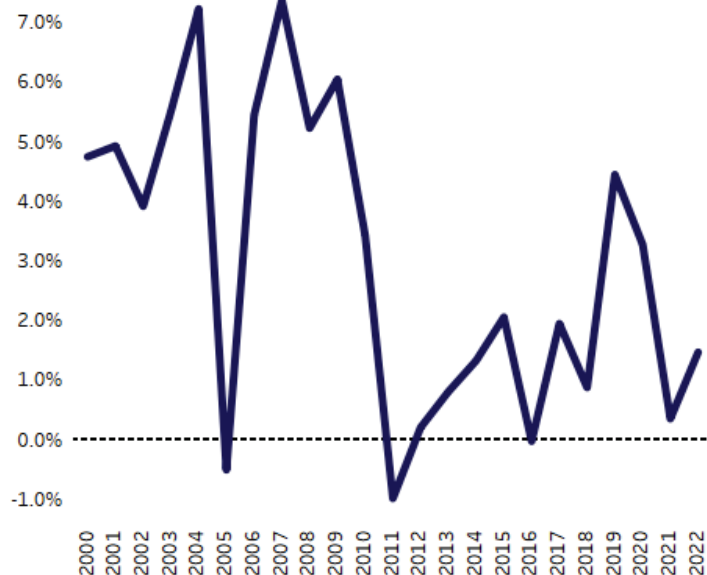
As we noted in the previous section, school districts have still had federal pandemic funds to draw on over the past two years, easing some of their budget strain. Yet not all districts received huge amounts of federal aid and those that did still run some financial risk in using the temporary federal money for ongoing expenses such as new staff or raises for existing staff.

The annual increases in per pupil revenue limits at one time closely tracked inflation. From 1999 to 2009, state law linked the increase in revenue limits to the change in the Consumer Price Index (CPI) from March of one year to the next. As Figure 3 shows, the gap between the percentage change in revenue limits and overall inflation reached its widest point ever during the current state budget.

This gap represents a significant challenge for K-12 districts and their workers, given the pressure to provide cost-of-living adjustments for workers and the fact that employee compensation is by far the greatest cost for schools. On the one hand, districts have been experiencing staffing challenges that include [elevated employee turnover](#) and greater [use of emergency teaching licenses](#); upcoming Forum research will further document

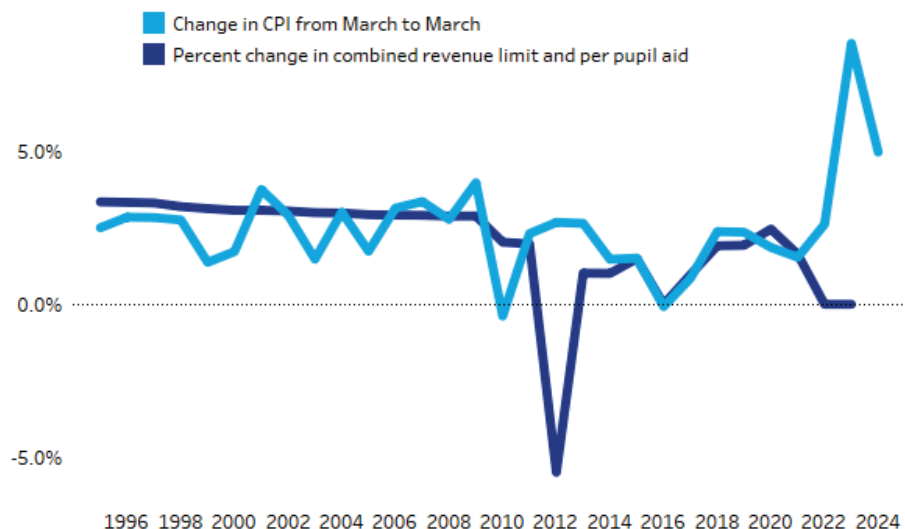
these difficulties. Yet for now, many school leaders have been hesitant to provide permanent pay increases for employees because they are uncertain about whether their budgets can sustain them.

Figure 2: Tax Growth Remains Low for School Districts
% change in gross statewide K-12 property tax levies by year, 2000-2022



Source: Wisconsin Department of Revenue

Figure 3: State School Revenue Caps Now Outpaced by 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 and U.S. Bureau of Labor Statistics; the combined amount in revenue limit and per pupil aid is divided by the average revenue limit per member and the rate for the Consumer Price Index is calculated by comparing the value from March of one year to the next.

The response from Gov. Tony Evers in his proposed budget was to sharply increase school revenue limits and provide \$2.6 billion in additional state aid to schools. As we outlined in our [2023-25 State Budget Brief](#), the governor would raise revenue limits by \$350 per student in the 2024 school year and an additional \$650 per student in 2025. These would be the largest increases since the revenue caps were first introduced and in addition Evers would return to the practice of linking revenue limit increases to the growth in CPI.

Republican lawmakers have said they will reduce the governor's proposed revenue limit increases substantially but are still likely to provide at least some increase. The amount, however, is not yet clear, leaving school leaders with substantial uncertainty as they develop and adopt their budgets.

Statewide Enrollment Still Falling

In our spring 2021 [school budget brief](#), we noted a critical question facing school districts was whether their enrollment numbers would rebound as the pandemic subsided. Two years later, the answer is clearly no. Prior to the pandemic at the start of the 2020 school year, public schools in the state had 854,959 students; since then, enrollment has dropped by more than 32,000. That included a 0.8% decline this year as enrollment fell to 822,804 from 829,143 the previous year.

DPI and districts count students each year on the third Friday in September. This year's student total represents not only the ninth consecutive year of decline, but it also marks the lowest overall count of students since the 1992 school year (although a change in methodology by the state in the 2005 academic year may affect comparisons with prior years).

The decline in enrollment likely reflects a combination of demographic shifts such as declining birth rates, the departure of students from public schools for private or home schooling, and effects associated with the pandemic. Private school enrollment has recovered from its pandemic slide in 2020 and 2021, rising from 121,729 last year to 124,447 in 2023 (an increase of 2.2%). It is now at its highest level since 2012. Enrollment data for home schooling for the current school year has not yet been released, but despite falling somewhat in the 2022 school year, it remained 7,758 students higher (35.8%) than in 2020.

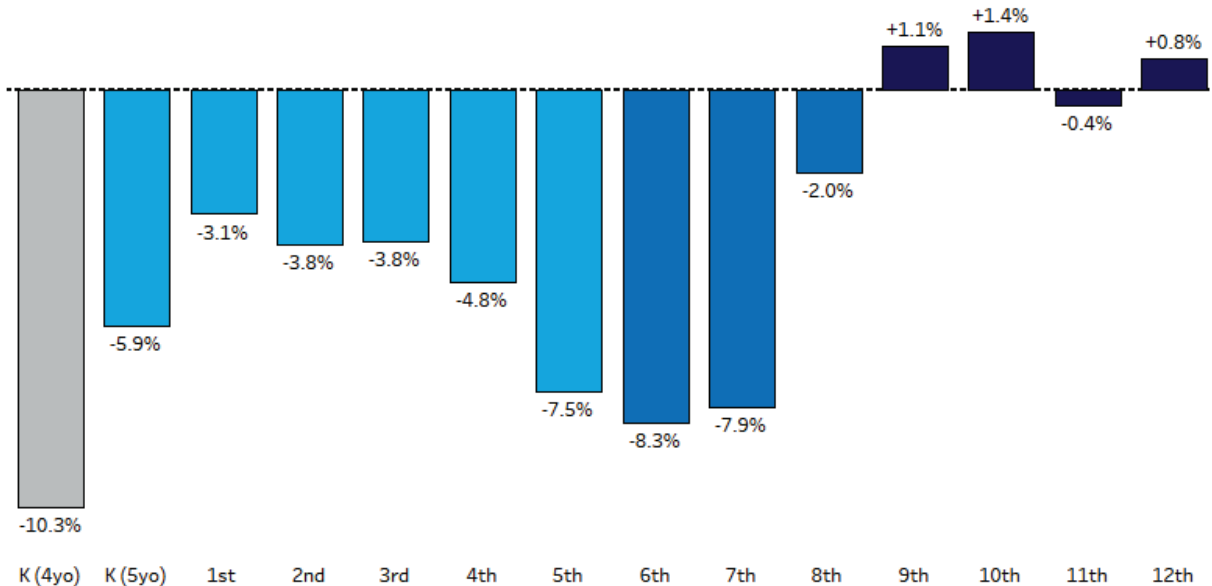
Among the 10 largest school districts, nine experienced a decline between last school year and the current one; only Appleton (0.3%) saw an increase. MPS lost more than 1,600 students and had the largest decline at 2.3% of any of the 10 districts.¹ MMSD's enrollment declined by 260 students, or 1.0%, a slightly higher rate than the state as a whole. Overall this year, 164 school districts gained enrollment, five saw enrollment stay the same, and 252 experienced a drop in enrollment.

Enrollment declines since the start of the pandemic have not been evenly distributed by grade. Statewide, ninth through twelfth grade enrollment is generally at or above pre-pandemic levels, but enrollment in grades five through seven is around 4,500 students lower in each grade compared to 2020. Four- and five-year-old kindergarten enrollment has also dropped significantly (see Figure 4 on the next page).

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.



Figure 4: Enrollment Declines Largest in Youngest Grades, Middle School
Change in public school enrollment by grade level, 2019-20 to 2022-23



Source: Wisconsin Department of Public Instruction

After three years of schooling impacted by the pandemic, it seems as if drops in enrollment are likely to continue. Over time, that means state revenue limits and aid payments for districts will fall, adding to their budget challenges.

MMSD 2024 BUDGET

The MMSD budget is facing some of the same challenges as other districts in the state, including rising inflation, shrinking enrollment, frozen state revenue limits, and an increase in its debt levels due to its 2020 capital referendum. Meanwhile, the district expects to keep losing state general school aids, putting added responsibility on local property taxpayers to cover the costs of educating students, including those facing barriers such as poverty, disabilities, and the need to learn English.

The district has weathered these difficulties in recent years due in large part to two temporary factors – an influx of federal pandemic aid and a successful 2020 referendum (distinct from its capital referendum in the same year) that ramped up the district’s operating spending over a four-year period. Yet 2024 marks the final year for using the federal aid as well as the last increase in MMSD’s operating budget resulting from the referendum.

The loss of these lifelines in 2025 could add to the position cuts already being contemplated in the 2024 budget proposal as well as the pressure to pursue another operating referendum within the next 18 months. Even assuming some additional assistance in the state budget, the result is likely to be greater financial challenges for MMSD in the years to come.

Operating Budget

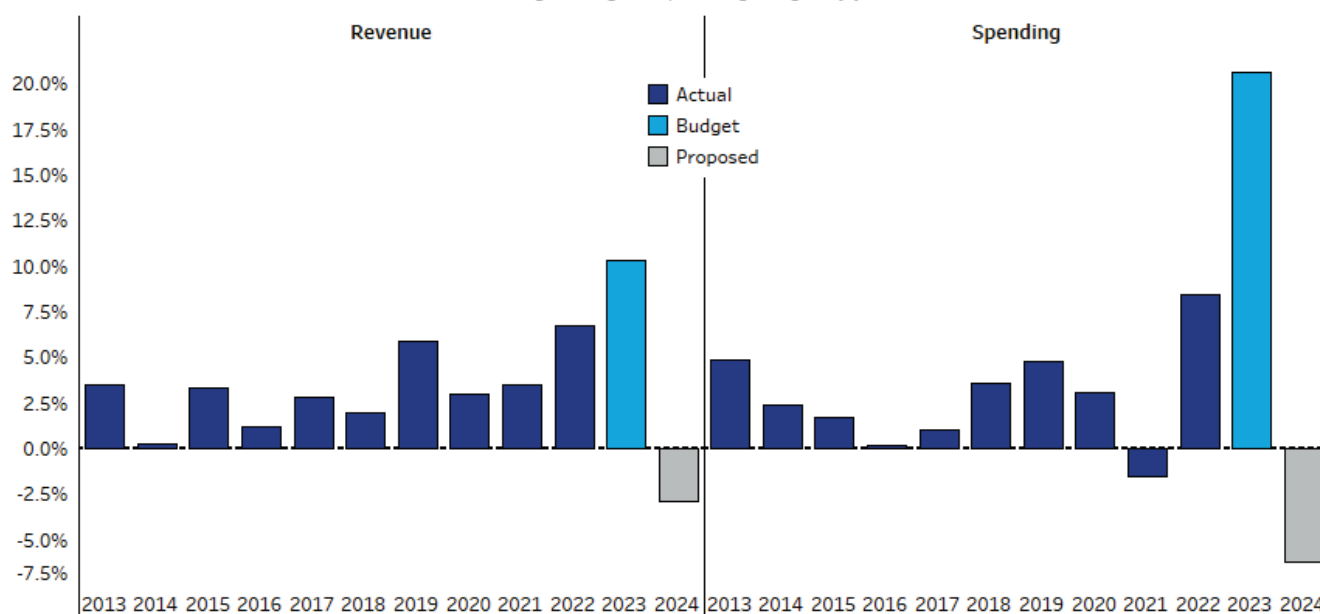
For the first time in at least a decade, MMSD would see a drop in operating revenues in its general and special education funds combined in the 2024 budget – at least under the relatively cautious

assumptions used in the proposal. The budget assumes no per pupil increase in state revenue limits or in the key forms of state aid that lie outside those limits. In addition, the district's budget also makes use of one-time federal pandemic aid that will not be available next year, leaving a potential challenge for 2025.

For now at least, the 2024 budget assumes MMSD's revenues will drop from \$515.7 million in the current year to \$500.8 million in 2024, a decrease of 2.9% (see Figure 5). This is driven in large part by a \$9.3 million (-12.4%) decline in federal aid, as the district works to spend down its remaining pandemic assistance. Yet it also reflects the district's current projections, which for now assume that its overall revenue limit will rise by only 0.7%, or \$2.6 million, even after factoring in the final year of its referendum increase. That may turn out to be overly pessimistic, but it ensures the district is prepared for a worst-case state budget.

Figure 5: MMSD Revenues To Dip Under Current Assumptions

Percentage change in operating budget by year



Source: Madison Metropolitan School District

Operating spending in the proposed budget would decrease by 6.2%, from \$536.7 million to \$503.3 million – a decline that would be felt across virtually every segment of the district's work. Regular instruction, which accounts for the largest portion of spending, would decline by about \$7 million, or 4.2%. Special instruction would see a 4.4% drop, and certain other areas, including vocational instruction (-11.5%), pupil services (-10.1%), and business administration services (-27.4%), would all see sizable reductions. The cuts could be softened, however, by an increase in state revenue limits or other forms of state revenues such as special education aid that fall outside the revenue cap.

One of the only segments of the operating budget to see a boost would be pupil transportation, which would jump from \$14.7 million in the current year to \$18.7 million next year, an increase of 26.7%. This line item alone has more than doubled since 2021 and reflects the impact of a new transportation contract and change of carrier for MMSD.



After falling \$21.8 million this year, the district's reserves would drop in 2024 by \$3.5 million, or 4.7%, to \$72.1 million. However, this unassigned general fund balance would still amount to 14.3% of operating spending and fall within the district's target range (see Figure 6).

Property Taxes and the Overall Budget

MMSD proposes a property tax levy of \$372.8 million, a \$10.3 million (2.8%) increase over this year's budget (see Figure 7). Because the value of property within the district's boundaries has increased by 8.0%, the district's projected tax rate would fall to \$9.49 per \$1,000 of equalized property value, or nearly two dollars lower than it was just two years ago.

The proposed property tax increase could grow if the Legislature does raise state revenue limits beyond the district's current assumptions and MMSD turns to property taxpayers to cover that additional authority. The district also is budgeting for a 15% drop in state general school aid – the maximum allowed under state law – from \$44.2 million in 2023 to \$37.4 million in 2024. A smaller drop in general school aid would offset some of the potential increase in property taxes.

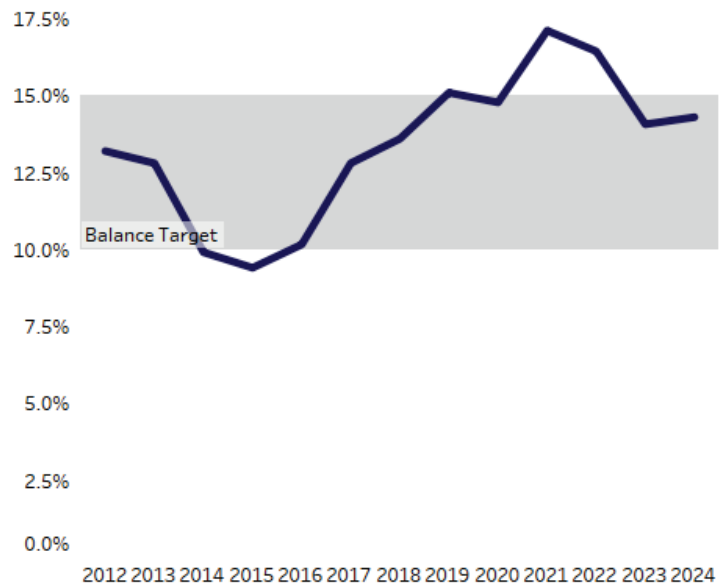
MMSD also projects its overall budget across various funds such as operations, capital projects, and food service. At present, MMSD is budgeting for revenues across all funds to decline from \$570.2 million this year to \$556.9 million (-2.3%) next year. Spending would drop from \$597.9 million to \$560.7 million (-6.2%).

Enrollment Keeps Falling

Enrollment in MMSD has declined rapidly since the onset of the pandemic. In the current year, the district counted 26,342 students for the three-year rolling average used for revenue limit purposes, and for the 2024 school year the district expects that number will fall by 219 students (0.8%) to 26,123. The headcount measurement of enrollment estimates an even larger reduction of 566 students (-2.2%) in the 2024 school year to 24,660.

Figure 6: District Reserves Would Remain Healthy

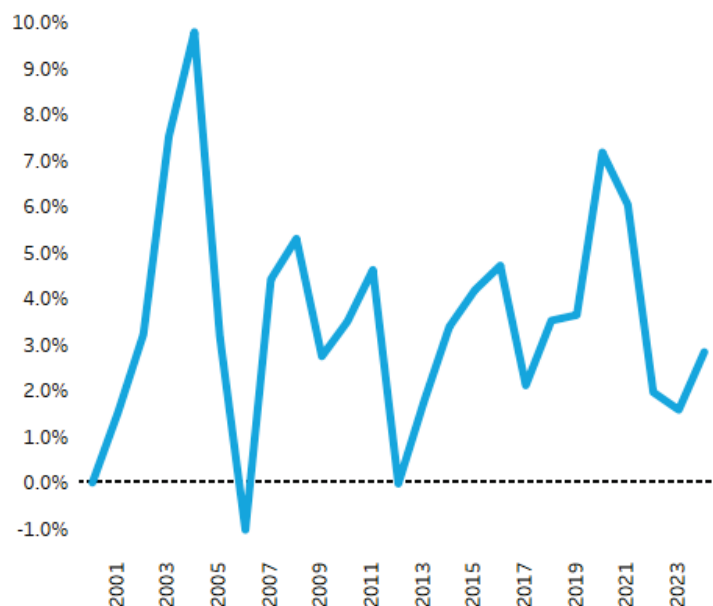
MMSD general fund balance as a share of spending by year



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

Figure 7: Property Taxes Would Lag Inflation

% change in MMSD property tax levies by year, 2000-2024



Source: Madison Metropolitan School District



These declines reflect the COVID-19 pandemic as well as lower birth rates in Dane County and a growing number of local students in voucher and independent charter schools. These sustained losses have lowered the district's revenue limit, since the state imposes the cap on a per-pupil basis.

We calculated how much MMSD's revenue limit and property tax could have increased under state law if the district's pre-pandemic 2020 three-year enrollment average of 27,410 had been retained for 2024. In doing so, we factored in the extra \$3 million that the district is receiving under the formula for this year only to help soften the enrollment losses. Even with those one-time funds, the enrollment losses mean that compared with a stable number of students the district expects to receive \$14.6 million less under the revenue limit before factoring in the various other exemptions to the cap that the district can claim under the state formula. That is more than the increase in the revenue limit provided under the first two years of the operating referendum approved by the district's voters in 2020.

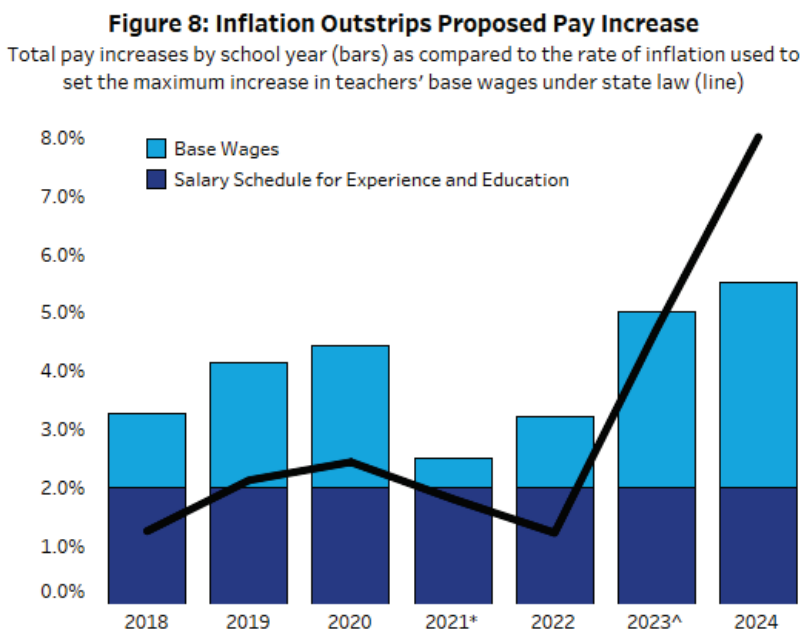
Our calculation may be somewhat overstating the impact of the district's enrollment drop since state law allows MMSD to increase its levy to partially cover the loss of revenues from students who now attend private schools in the state's voucher program. Still, it provides a rough sense of the magnitude of the financial impact to the district of the overall enrollment decline.

Staffing Levels and Compensation

Total staffing at MMSD would decline significantly under the proposed budget, from 4,170.8 full-time-equivalent employees (FTEs) in 2023 to just 4,015.7 in the upcoming year, a decrease of 155 positions, or 3.7%. Nearly all of this decline would come from a 3.1% decrease in teaching positions and a 13.7% decline in educational assistants, which in turn reflect the loss in student enrollment.

The staffing cuts could continue in 2025. The proposal for 2024 uses the temporary federal pandemic funds to pay for 84.5 positions that will end after the upcoming school year as well as 110.9 ongoing positions (despite the funds' one-time nature). All of these positions are at risk after the federal funds expire. That said, while the number of regular education teachers in all types of schools will decline, certain student services positions will see small boosts. Those include mental health professionals (five new positions), a school psychologist position, and a bilingual resource teaching position.

One factor that is not clear from MMSD's budget proposal is the district's expectations with regard to vacant positions and employee turnover. Many public employers have seen increases in those areas in recent years, yielding short-term budget savings but also challenges in delivering



Source: Madison Metropolitan School District. *In 2021, employees received \$3.5M in bonuses in addition to the raises shown in the chart. ^In 2023, hourly wages for educational assistants, clerical, security, and food service employees were increased by \$5/hour in addition to raises shown in chart.

services and increased pressure to boost salaries to fill vacancies. More data on vacancies and turnover would help to clarify the district's prospects.

To respond to rising inflation, the budget proposes a 5.5% increase in staff compensation on average, the largest in recent years but less than the 8% increase allowed for base wages under Act 10. Base wages would account for 3.5 percentage points of the increase, with an additional two percentage points coming from the schedule providing higher wages to those with more experience and education. While this percentage increase is greater than in past years while minimizing the district's budget imbalance, certain hourly employees also received a \$5 per hour raise last year and overall pay raises would lag the recent rate of inflation, as Figure 8 on the previous page shows.

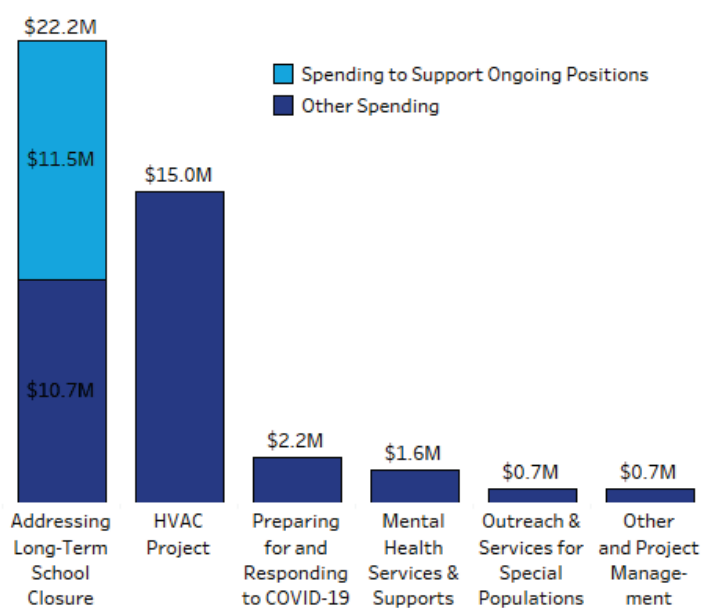
Federal Pandemic Aid Funds Diverse Projects

The proposal for 2024 would use some of the district's last remaining federal pandemic aid to help fund its ongoing operations, a use of one-time money that would ease MMSD's immediate challenges but leave it with budget gaps in 2025. The district has received \$71.1 million in COVID-19 aid through various rounds of federal funding, including \$465,000 for student mental health that came from Dane County's pandemic funds. A majority of these funds have already been allocated to projects, as detailed in our previous school [budget brief](#), including some that were previously committed to the 2024 budget. The proposed budget would spend \$42.4 million of the temporary federal aid to pay for programming that includes the 195.5 short-term and permanent positions.

Figure 9 shows spending under the third round of federal ESSER funding across different program areas. Addressing long-term school closure receives the largest allocation at \$22.2 million, funding efforts such as hiring short-term staff to help high school students earn enough credits to graduate, purchasing educational materials, and improving virtual delivery of educational materials. The 110.9 ongoing positions are in this area.

At \$17.2 million, preparedness and response to COVID-19 is the second-largest category and includes \$15 million for heating, ventilation, and air conditioning upgrades to school buildings, a one-time use of the money that will not create budget challenges in the future and could help save on energy costs. However, some of the monies also would pay for positions with responsibilities that may continue beyond 2024, including two custodial manager positions to address longer-term needs, creating potential difficulties for the 2025 budget. Similarly, the district allocates \$1.6 million to mental health services and support, an area in which needs are likely to persist for the district.

Fig. 9: One-Time Aid Would Go To Some Ongoing Spending
ESSER III funding by spending category



Source: Madison Metropolitan School District Proposed Budget

It is difficult to estimate how large of a budget hole will be left in future years by the proposed uses of the federal funds, since it is unclear in some cases whether the district will be able to phase out these positions and programs. Some \$22.9 million of the spending appears to be temporary, including the \$15 million for heating and cooling upgrades and \$7.9 million for purchases of educational materials, construction manager positions related to the district's capital referendum projects, and resources for COVID-19 contact tracing.

Subtracting those items from the \$42.4 million total for ESSER III projects leaves a maximum gap of \$19.4 million that the district may need to address in 2025, with the \$11.5 million representing a minimum gap to cover costs related to the 110.9 ongoing positions. The shortfall in the overall budget could be somewhat better or worse than that depending on what happens with other factors such as inflation, employee wages and compensation, and the district's state-imposed revenue limit.

Debt and Capital Referendum

The impact of the district's \$317 million capital referendum, passed in 2020, can be seen at facilities across the district (see [our 2020](#) and [2021 school budget briefs](#)). Construction on a series of projects began in the spring of 2022 and continues, with substantial activity at all four of the district's main high schools. The high school renovations are expected to be completed in August 2024, with the remaining smaller construction projects in the district scheduled to be completed by the fall of 2023. The district has funded construction with proceeds from \$212 million in bonds issued in 2021, and a third and final bond issue is scheduled for this month.

The cost of borrowing the first two-thirds of the funding was below the district's original estimates, but the cost for the final tranche of borrowing may be greater given that interest rates have risen and the district's overall debt levels have grown substantially because of these projects. Despite the increase in borrowing, however, the district has relatively manageable long-term liabilities overall, since it participates in the well-funded Wisconsin Retirement System and has no major unfunded pension or retiree health care obligations.

Enrollment in Independent Charters, Private Vouchers Makes an Impact

In recent years, MMSD has made rising payments to the state for what is essentially lost state aid due to students in the Madison area who attend independent charter schools or private schools participating in the state's voucher program. This year, payments to the state for those items and all others rose to \$11.0 million, a 59.5% increase from last year's total of \$6.9 million. For 2024, the district is projecting an additional increase of 19.6% to \$13.2 million. Since 2015, when the budget included \$400,000 for this purpose, the district's payments to the state have risen by a factor of nearly 35 (see Figure 10 on the next page). That reflects a rapid increase in the number of independent charter and private voucher schools in the Madison area.

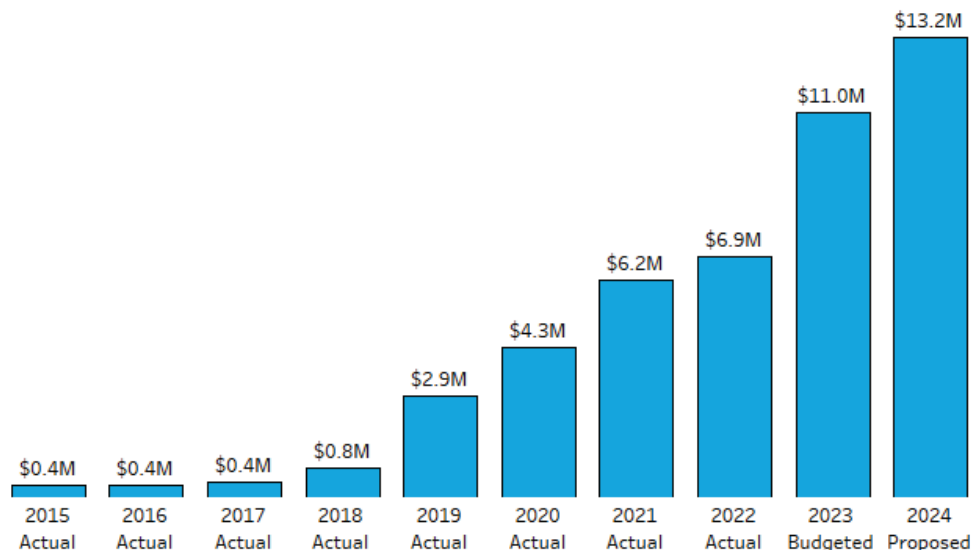
Since 2018, three independent charter schools have opened in Madison: One City, Isthmus Montessori Academy, and the Milestone Democratic School. Students attending one of these three schools who live within the geographic boundaries of MMSD are counted for the purposes of the district's revenue limit and general aid totals, but the state reduces aid payments to the district to account for those students and the district cannot levy property taxes to "backfill" the lost aid.

Currently, MMSD pays \$9,264 for each full-time equivalent student within the district's boundaries, with the money going to the student's charter school. In the 2019 school year, a total of 275 students attended Isthmus Montessori Academy and One City. By this year, the number of



independent charter students had risen to 705 – 42 at Milestone Democratic School, 208 at Isthmus Montessori Academy, and 455 at One City. While independent charter enrollment had been increasing steadily prior to this year, the 48.7% jump this year was by far the highest of any year since any of these schools opened their doors. MMSD’s loss in state aid, recorded as a payment to the state, has grown as a result.

Fig. 10: Losses in State Aid Rise for MMSD as Charter, Private Enrollment Grows
Payment from MMSD to state from all budgeted funds, 2015-2024



Source: Madison Metropolitan School District

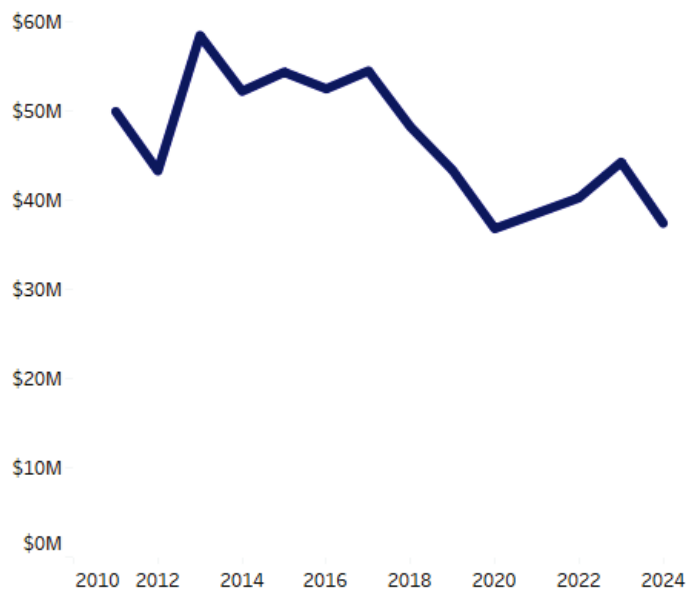
Additionally, students within MMSD’s boundaries who attend certain private schools and whose families fall below the state’s income threshold can participate in the state’s voucher program, which can potentially lead to reduced state aid. While the exact numbers from MMSD are not available, the number of students eligible for the school choice program who attended a private school in Dane County rose from 515.0 in 2022 to 610.9 this year, an increase of 18.6%.

General School Aids Could Once Again Fall

General school aids – the main form of state assistance to K-12 schools – are projected to fall sharply for MMSD in 2024, returning to their trend of long-term decline after several relatively stable years. In the 2013 school year, general school aids totaled \$58.5 million but by 2024 are projected to shrink to \$37.4 million, which would be nearly their lowest level in more than a decade (see Figure 11). This shift would make the district even more dependent on local property taxpayers.

In essence, MMSD’s general school aids have declined because property

Figure 11: Main Form of State Aid Could Fall to Near Low
State general school aid payments* to MMSD in nominal dollars



Source: MMSD. *Aid as certified by state on Oct. 15; 2024 amount is projected.



values in the area are high and generally rising more rapidly than in the rest of the state. In addition, the district spends at higher than average levels – in part because of the 2020 referendum. The combination of higher than average property values and spending causes the district to receive less favorable treatment under the state’s main aid formula, as we discussed in our [May 2020 brief](#).

Using the figures in the district’s budget worksheets, we calculated that the \$8 million in additional referendum spending in 2022 resulted in a loss of nearly \$4.4 million in state equalization aid this year over what it would have received otherwise. A similar effect could result from any other policy choice to increase spending counted in the state formula. Though the impact in any year can vary, in general the long-term effect of the additional spending from a referendum will be to lower general school aids for the district and leave it more reliant on local property taxpayers to fund its operations.

At present, the state funding formula factors in MMSD’s high property values but not its fairly sizable numbers of low-income students and students who do not speak English as a first language – populations who typically cost more to serve. These realities may be worth considering by lawmakers who craft the formula as well as by MMSD officials and voters as they consider any future referenda.

Referendum Vote in 2024?

As this brief shows, the Madison schools are already preparing to cut more than 150 positions in this preliminary 2024 budget and to fund more than 195 positions with federal pandemic aid that will last only one more year. In addition, the district is continuing to draw down its reserves, and its proposed 2024 raise for its remaining employees, though sizable, would still trail inflation by several percentage points.

How will the district manage these fiscal pressures moving forward? Several potential solutions might present themselves. The first involves the state budget – MMSD’s financial picture could brighten if legislators approve a substantial increase in state revenue limits or in state funds such as special education aid that fall outside the limits. That possibility, however, is both uncertain and outside the district’s control.

The district could also make substantial spending cuts, such as further reducing positions or staff benefits and compensation; reducing services, electives, or other offerings for students; or reducing the number of school buildings. However, these difficult options could have impacts on students, staff, and families.

MMSD also could choose for a time to spend down its reserves or pursue other short-term fixes. These steps, however, could conflict with the district’s own policies to carry adequate reserves, raise short-term borrowing costs, and leave Madison schools less prepared for future challenges.

Last, the district could choose to pursue yet another operating referendum. In 2016, MMSD put to voters a four-year referendum to increase property taxes and spending by up to \$26 million after being fully implemented in 2019. The following year, the district sought an additional four-year referendum that will phase in its full increase of \$33 million in 2024. Voters overwhelmingly approved both measures.

MMSD might choose to pursue a similar operating referendum next year to help manage its budget. Under the state funding formula, however, a successful referendum likely would further erode state general aid to the district. That would not prevent MMSD from using a referendum to raise its spending levels, but it would add to the long-term cost for local property taxpayers.



MPS 2024 BUDGET

For now, understanding the MPS Superintendent's 2024 budget requires just as much consideration of what is not included as what is proposed. The budget assumes the district's key state revenue streams – namely, the amounts allowed under state revenue limits as well as special education aids – reflect current law, as opposed to the sizable increases proposed by Gov. Evers. That is the appropriate move from a budgeting perspective, and although it may turn out to be too conservative, it provides an important picture of the district's deep structural challenges and what the future may hold if its key revenue streams do not increase steadily over time.

Unfortunately, that picture is somewhat clouded by other factors that preclude the budget from offering a complete view of the district's true fiscal status. The most notable is a \$22.7 million increase in budgetary "savings" from projected unspent salary and benefit costs attributed to the continued vacancy of hundreds of authorized positions. There is nothing wrong with budgeting those savings if MPS leaders believe they will be unable to fill a large portion of the positions in 2024 (or if they believe tight labor market conditions will prevent them from doing so quickly). Given that this is the second consecutive year in which a huge vacancy adjustment has served as a key budget-balancing tool, however, and that declining enrollment has reduced the district's pupil-teacher ratio to less than 14 pupils for every one authorized teacher position district-wide, the district instead could have incorporated an updated staffing framework in the budget that abolished positions no longer deemed necessary.

The vacancy savings help pay for an 8% across-the-board cost-of-living adjustment (COLA) for those positions that are filled. (The adjustment also would be applied to steps and lanes in the district's pay grades and schedules.) This substantial increase – which according to budget officials adds about \$50 million in salary costs next year – may be necessary in light of the high rate of inflation and the tight labor market in which MPS must compete for teachers, but it similarly lacks explanation or even mention in the budget and analysis of how it may exacerbate the district's growing challenges in future years.

Finally, the proposed budget reflects the spend-down of ESSER dollars, which must be fully obligated by September 2024. Federal categorical revenues fall by \$334.5 million, reflecting the use of most of the district's \$797 million in federal relief aid in the previous two budgets. However, overall federal funding for school operations increases by \$13.3 million thanks to a decision to plug that amount of ESSER money into that fund, as opposed to retaining it in the categorical fund and employing it for one-time uses. This move helps schools absorb the COLA in 2024, but it would create a \$13.3 million gap in the 2025 budget.

While these assumptions and decisions are tentative, and while their ultimate disposition may be dramatically altered by decisions within the state budget, the superintendent's proposal as a whole does offer a glimpse into both the district's immediate budgetary priorities and its long-term challenges. In the pages that follow, we summarize the budget's structure and key decision points, and offer our take on the most critical issues facing the Board of School Directors in its budget deliberations.



Revenue Limit Shrinks

An initial glance at the proposed budget's revenue picture shows a sharp reduction from the current year, as total revenues shrink by \$372.1 million (19.9%) when compared to the 2023 budget. As shown in Table 1, however, the decrease stems mostly from a sizable (\$375.1 million) decline in categorical funds, which mostly reflects a reduced allocation of ESSER funds in 2024 as that funding source winds down. The categorical fund houses federal, state, and private grants in recognition of their special uses and often temporary nature.

Still, a projected 1.0% decline (\$10.4 million) in revenues for school operations is noteworthy.

The \$1.04 billion school operations fund is the largest in the budget and is most directly related to instruction. Its key source of support is the combined amount of general state school aids and property taxes allowed under state revenue limits.² This combined amount, which accounts for 82% of budgeted school operations revenues, is estimated at \$847.5 million in 2024, which is down by \$31.6 million (3.6%) from the \$879.1 million in this year's budget.

Table 1: MPS revenues by fund, 2023 vs. 2024 (in millions)

Fund	2023 Adopted	2024 Proposed	2023 to 2024 % change
School operations	\$1,046.5	\$1,036.1	-1.0%
Categorical	\$727.8	\$352.7	-51.5%
Construction	\$3.6	\$7.1	97.2%
Nutrition	\$47.9	\$57.7	20.4%
Extension	\$42.3	\$42.5	0.4%
Total	\$1,868.1	\$1,496.0	-19.9%

Source: MPS 2024 proposed budget

So why would this critical revenue source decline by more than \$30 million when the budget assumes no change in revenue limits next year? The answer lies in the complicated formula used by the state to calculate revenue limits and state aids. That formula places considerable emphasis on school enrollment, which continues its long-term decline at MPS with a headcount drop of 1,437 students projected in the next school year.

The reduction would have been \$3 million greater if not for an increase of that amount afforded by the district's successful 2020 referendum to exceed state revenue limits. The increase is the last installment of a four-year phase-in of extra revenue limit authority that totals \$87 million in the 2024 budget and thereafter (additional details on referendum spending are provided later in this report). Additional factors alleviating the revenue limit reduction are a \$6.5 million budgeted increase in state special education aids that fall outside the state cap and, more notably, the decision noted above to plug \$13.3 million of federal ESSER money into school operations next year.

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 that MPS' property tax levy would stay flat at \$283.6 million while state equalization aids would fall by \$30.2 million. (The budget also assumes that state computer aid would drop by \$1.4 million, thus accounting for the budgeted decrease of \$31.6 million in the revenue limit total.)

² State revenue limits control the amount of revenue that can be collected from 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.



Figure 12 shows the recent trend for these two most important slices of MPS' overall revenue pie. As would have been expected, the combined amount rose sharply (by \$49.8 million) in the 2021 fiscal year, which was the first following the successful referendum in April 2020. Property taxes increased by nearly \$40 million that year, while equalization aids rose by a little under \$10 million.

Notably, MPS' increase in the combined amount in 2022 came exclusively from equalization aids, as property taxes declined that year by \$3.0 million despite the continued phase-in of the higher revenue limits afforded by the referendum. The \$20.5 million increase in equalization aids

resulted largely from the fact that the state funding formula rewards districts like MPS for additional spending in the previous year.

However, that situation reversed itself in the 2023 budget with a projected \$28.6 million decline in equalization aids and a \$12.2 million increase in property taxes. As noted above, equalization aids are projected to decline by an even larger amount in 2024 unless increases are included in the state budget; if no such increase is included but revenue limits are allowed to expand, then there would be increased pressure on the property tax to rise.

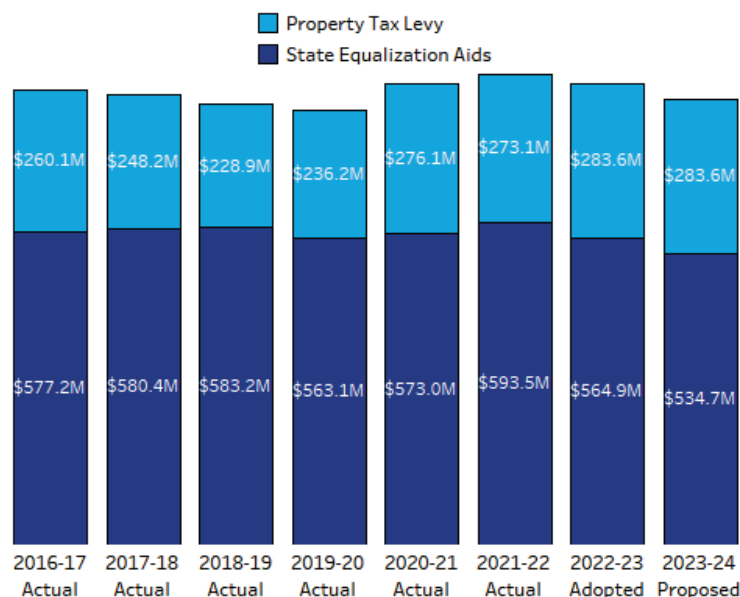
COLAs Financed with Vacancy Savings and One-Time Measures

On the expenditure side, our review of the 2024 proposed budget shows that it maintains existing staffing and service levels but is precluded from embarking on any new initiatives because of the reduction in school operations revenues. This characterization is seemingly contradicted, however, by a \$42.8 million (3.9%) increase in direct allocations for schools, including a sizable increase in their per-pupil allocations (ranging from \$823 per pupil for K-8 schools to \$1,185 per pupil for middle schools). Yet, those increases largely pay for the most significant spending item in the budget: an 8% across-the-board salary increase for MPS teachers and all other staff, which would also be applied to the various steps and lanes that allow progression for employees in the district's pay schedule.

To understand the dynamic in play here, it is helpful to consider recent trends in MPS' three major areas of expenditures: schools, central services, and other accounts. Unfortunately, the timing of both the budgeting and actual expenditure of ESSER funds makes such consideration difficult. For example, the allocation of ESSER funds to certain technology and facilities-related endeavors caused central services spending to skyrocket in 2023, as shown in Table 2 on the next page. However, by

Figure 12: Main MPS Revenues Drop After Increases

MPS general state aid and property tax revenue, 2017-2024



Source: MPS budget documents

comparing 2024 proposed expenditures to 2022 actual amounts, we can begin to gain insight into some important decisions that are not fully discernable in budget documents.

Table 2: MPS all funds expenditures by function, 2022 to 2024 (in millions)

Expenditures	2022 Actual	2023 Adopted	2024 Proposed	2022 to 2024 % Change
Schools	\$1,009.1	\$1,190.3	\$1,237.1	22.6%
Central Services	\$274.4	\$654.7	\$268.5	-2.2%
Other Accounts	\$104.9	\$29.6	\$1.1	-99.0%
Inter-department & Inter-fund*	\$-6.9	\$-6.5	\$-10.6	53.6%
Total	\$1,381.6	\$1,868.2	\$1,496.1	8.3%

Source: MPS 2024 proposed budget

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

The table shows that when comparing 2022 actual expenditures to 2024 proposed expenditures, spending on schools would increase by 22.6%, while spending on central services and other accounts would decline by 2.2% and 99.0% respectively. The increase for schools is linked to several factors, including instruction-related initiatives enabled by the 2020 referendum. However, a significant factor in the proposed \$42.8 million increase for schools is the 8% COLA for all staff, which budget officials estimate will cost about \$50 million district-wide.

This decision matches the maximum increase allowed by 2011 Wisconsin Act 10 for collective bargaining units, which is linked to the previous year's growth in inflation as measured by the Consumer Price Index (CPI). It is also consistent with the decision last year to provide 4.7% COLAs, which matched CPI for the previous year. With regard to need, the maximum COLA has previously been justified by MPS officials as critical to their efforts to retain and recruit high-quality teachers (which we discuss further in a subsequent section). **Yet, at the same time, the price tag poses a severe financial challenge for a school district facing a possible \$31.6 million cut in its foremost revenue stream.**

So how does the proposed budget make the numbers work? The answer lies in dozens of decisions sprinkled throughout the budget, the most sizable and significant of which are the following:

- The previously mentioned \$22.7 million increase (to \$74.4 million) in assumed combined savings in both salaries and payroll taxes based on the expected number of vacancies the district will experience in 2024. This adjustment drives the decrease in the other accounts category in 2024 as well as an even bigger decline in 2023 (as shown in Table 2).
- The \$13.3 million in federal ESSER monies that are allocated to the school operations fund, which supports ongoing operations for schools, as opposed to the categorical fund, which is used for grants and has previously housed all ESSER appropriations.
- The removal of an \$18 million reserve that was included in the 2023 budget to pay for COLAs for central services staff (which drives the decrease in the central services category from 2022 to 2024 as shown in Table 2). Instead, according to budget officials, central services functions will need to absorb the sizable COLAs for staff, thus potentially requiring managers to keep a greater number of positions vacant than already budgeted or to reduce expenditures in other ways.

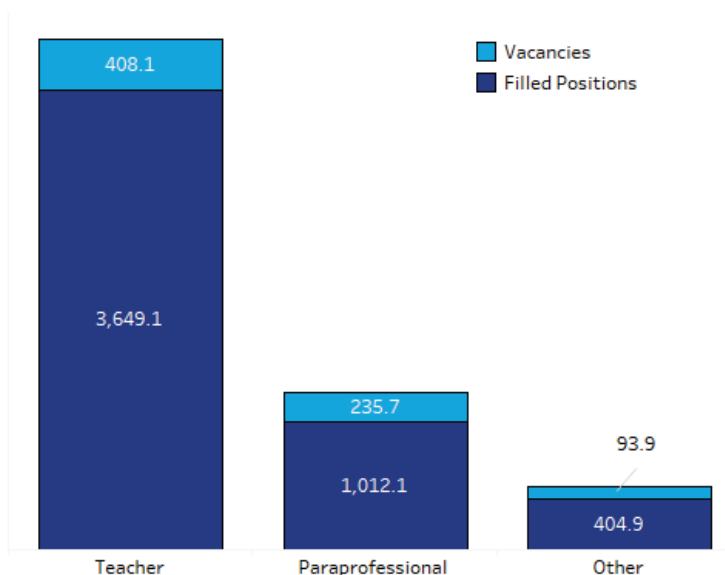


Each of these actions has a purpose, but each also creates challenges for future budgets and masks the tenuous nature of the overall proposed budget. For example, the inclusion of the ESSER funds in school operations, while essential to allowing schools to absorb their COLAs, is a one-time move that will create a \$13.3 million hole in the 2025 budget when ESSER funds are exhausted.

Meanwhile, the removal of the \$18 million for COLAs from central services is consistent with the superintendent's long-time emphasis on prioritizing schools over support services. The consequences on key central service operations is unknown, however, and requiring central services managers to absorb COLAs year after year may not be sustainable over the long term.

The vacancy adjustment also creates ongoing concerns – not necessarily because the projection is unrealistic (Figure 13 shows that as of May 7, there were more than 700 vacant positions district-wide³), but because budgeting in this manner fails to reflect and convey to the public the district's true staffing needs. Indeed, while other local governments, including Milwaukee County, budget a vacancy savings based on the projected ebb and flow of individuals who vacate positions and the pace at which those positions typically are filled, and while MPS has employed this practice more modestly in the past, its use has exploded in the past two budgets. The average budgeted vacancy adjustment from 2018 to 2022 for salaries alone (i.e., not including payroll taxes) was \$18.1 million, but budgeted amounts rose to \$51.7 million this year and would rise again to \$64.7 million in 2024.

Figure 13: MPS is Maintaining Hundreds of Vacant Positions
Filled and unfilled teacher, paraprofessional, secretarial, and handicapped aid positions on a full-time equivalent (FTE) basis



Source: MPS Office of Accountability and Efficiency

The rise in the vacancy adjustment is somewhat understandable given the nature of today's labor market, which makes it exceedingly difficult to fill vacant positions on a timely basis. But for MPS leaders to convincingly argue to state leaders that they need more funding despite declining enrollment, it will be imperative to show how they are adjusting permanent staffing levels to respond to their reduced student body.

Moreover, after more than two years of exceedingly high vacancies, it would be appropriate for MPS leaders to conduct a strategic review of those vacant positions that it intends to fill and those that it can now do without. Figure 14 on the next page suggests there may be dozens of such positions, as the district's overall pupil-to-teacher ratio has declined to below 14:1. (This calculation is based not on filled positions, but on the number of teacher positions on its books)

³ It should be noted that these totals do not account for any use of substitute or temporary staff to fill vacant positions.



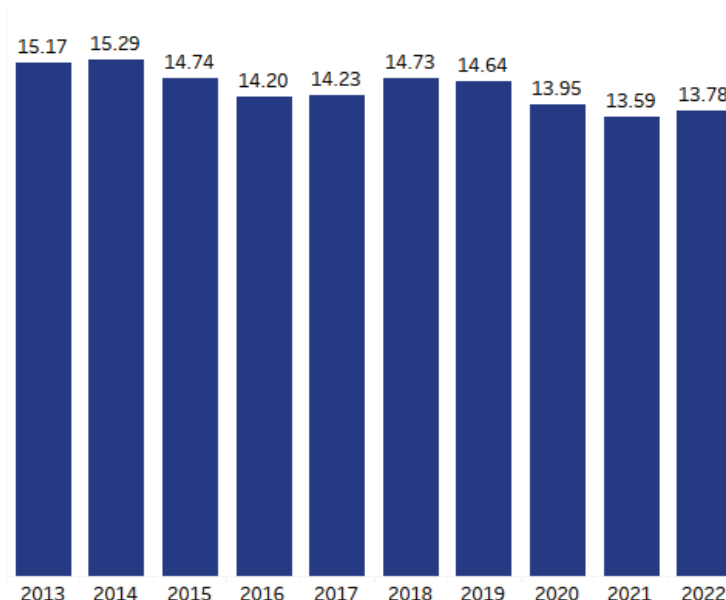
Finally, two additional developments could significantly add to the district's budget challenges in 2025:

- The 2024 budget benefits from a \$7.5 million reduction in debt payments (from \$37.2 million to \$29.7 million). Unfortunately, that situation will be reversed in 2025, when debt service again is projected to grow to the 2023 amount of about \$37 million.

- For years, MPS has been using federal categorical funding from the Title I program to support dozens of “school support teachers” who are housed in schools and provide instructional coaching, assessment, and other professional development for teaching staff. The budget notes that DPI has informed the district that this use of Title I funds is no longer allowable, so ESSER funds would be used to support the positions in 2024. When those funds expire in 2025, the district will have to decide whether to find school operations funds to support some or all of the positions or to abandon the model and abolish them.

Figure 14: Pupil-Teacher Ratios Shrink as Enrollment Declines

MPS pupil-teacher ratios, 2013-2022



Source: MPS Office of Accountability and Efficiency

COLA Goals Complicated by Context

A number of worthy goals underlie the proposal to offer an 8% across-the-board COLA in 2024. Among other things, providing a cost-of-living adjustment acknowledges the rising costs borne by staff due to inflation. This commitment also may be seen as laudable as staff continue to recover from the strain of the COVID-19 pandemic.

Another impact of the pandemic was exacerbated staffing shortages within MPS. As of May 7, 2023, the district had not filled 408 teacher positions and 235 paraprofessional positions. Elsewhere we discuss whether all of these positions need to be filled given the district's enrollment decline. Even if some positions can be cut, however, the district still appears to be facing severe staffing shortages. Little wonder, then, that it should seek to use increased pay as one tool to address its labor challenges.

With its approximately \$50 million price tag and the district's overall troubling revenue outlook, however, MPS must contend with the fiscal viability of this strategy and ensure that, if pursued, it pays off for the district.

The district is engaging in several internal efforts to address its staffing issues, including a compensation study and an analysis of teacher retention. Ideally, this work will help illuminate for MPS the role that compensation plays in the district's overall staffing strategy. Increasing pay is likely

to play a role in any strategy, but the magnitude and scope of its role may vary depending on the district's analysis of the root causes of the problem.

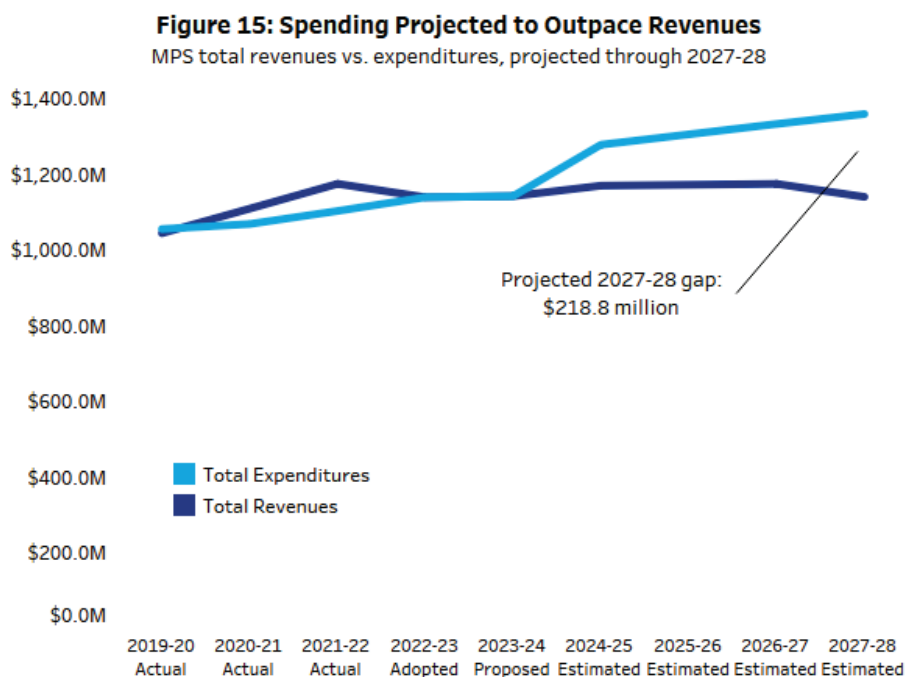
For example, preliminary analysis by the Forum on [state teacher turnover and salary data](#) shows that MPS in 2023 offered a higher average teacher salary than all but one of the 11 school districts (Elmbrook) to which MPS teachers most frequently transfer. The average salary at MPS in 2023 was \$69,265, while the median among the average salaries at the other districts was \$64,167. In addition, from 2009 to 2022, 87.1% of the cases of MPS turnover were *not* attributable to teachers moving from MPS to another Wisconsin public school district.

These and other data may complicate the argument that raising pay is enough on its own to encourage existing staff to remain at MPS and attract new staff to the district, or the frequent refrain that MPS must keep its wages competitive with neighboring districts' or risk losing teachers to those districts. Yet, on the other hand, pay may still be an important factor in the district's teacher recruitment and retention strategy, especially as compensation for staff working in challenging environments. A more precise diagnosis of the source of the district's human resources issues may help the school board and the public gauge the extent to which salary increases such as the proposed 8% COLA for 2024 will address or ameliorate those issues.

Five-Year Forecast Worsens

MPS' five-year forecast in the 2024 proposed budget conveys additional troublesome news for the future. At this time last year, the proposed budget projected a structural gap starting at \$73.0 million in 2024 and growing to \$163.2 million in 2027. This year's iteration sets the beginning gap at \$108.2 million in 2025 and shows it increasing to \$218.8 million in 2028 (see Figure 15).

The main reasons for the increase, according to budget officials, are assumptions that some percentage of vacant positions will be filled and that they will need to apply larger assumed COLAs in light of higher inflation to salary assumptions in each of the next five years. In light of reduced vacancy savings, salary expenditures are projected to grow by \$58.8 million (12.1%) in 2025. Meanwhile, the forecast does assume a \$27.6 million (2.4%) increase in total revenues in 2025, but then projects that revenues will stay roughly flat over the next two years before falling by \$34.4 million in 2028.



Reality would dictate that a substantial number of vacant positions will not be filled in future years and might even be eliminated; that possibility, as well as the district's inability to reliably prognosticate what might happen with regard to its state and federal aids, makes the five-year forecast more of an insightful tool than a precise projection of the district's future financial challenges. Still, the growth in the projected gap from last year to this year spells trouble ahead for MPS and the potential for significant spending cuts in future budgets. Furthermore, it conveys the chilling realization that **after the final phase-in of the district's \$87 million in additional revenue limit capacity from the referendum next year, MPS may find itself no better off from a long-term financial perspective than it was before the referendum was adopted.**

Finally, it is worth noting that after considerable progress in building its general fund balance in 2021, the district's most recent financial statements show that the balance dropped from \$68.0 million at the end of that fiscal year to \$22.5 million at the end of 2022. Meanwhile, the unassigned portion of the general fund balance declined from \$50.6 million in 2021 to \$6.4 million in 2022, seemingly leaving MPS with little cushion to accommodate its future challenges.

The district's annual comprehensive financial report notes, however, that there is a timing issue here, as there are deferred inflows of resources (mostly grant dollars that have been promised but are not yet available) that are not yet reflected in the general fund that cause the balance to be considerably understated. Also, the drop in the fund balance last year does reflect prudent decisions to instead add money to reserves for retiree health care and the construction trust. Those moves not only shored up some vulnerable areas, but also allowed the district to avoid a further hit in its equalization aids payment – which is based in part on spending and would have penalized the district if it had instead used the reserve contribution dollars to build up the general fund balance.

Federal Funds Address Some Concerns and Create Others

Alongside the 2024 proposed budget, MPS again has provided a [budget supplement](#) summarizing its expenditures to date of ESSER II and ESSER III funds and its proposed use of the remaining dollars. The document accounts for the \$730.4 million in ESSER II and ESSER III dollars allocated to MPS. These funds come on top of previous GEER I and ESSER I allocations.

The supplement shows that, as of February 28, 2023, MPS had spent 37.8% of its ESSER II funds and obligated another 40.7%, leaving 21.6% remaining. For ESSER III, the district reported spending 18.0% so far and obligating another 32.9%, with 49.2% of ESSER III funds still available. ESSER II funds must be obligated by September 30, 2023 and ESSER III funds by September 30, 2024.

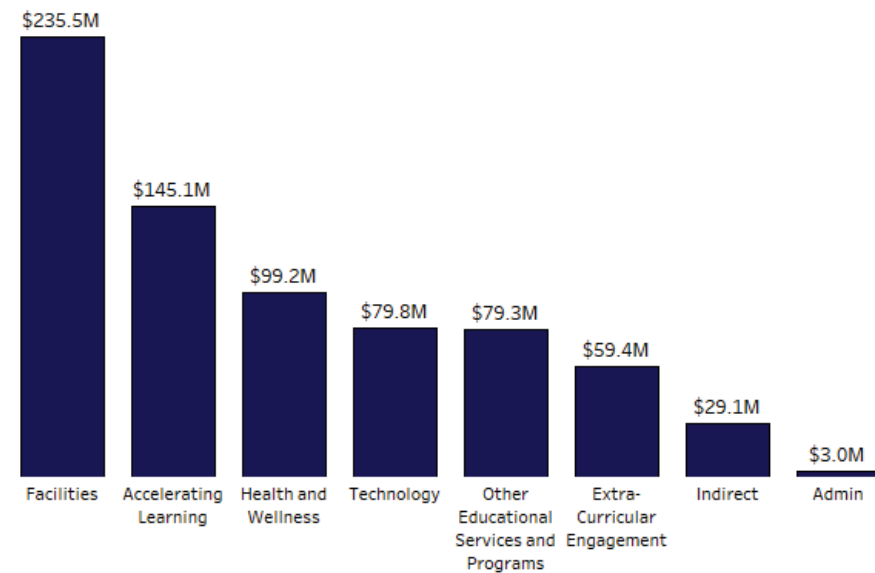
The distribution of funds across the identified MPS priority areas has changed little from last year's proposed spending plan. Facilities spending remains the largest budgeted category at \$235.4 million, or 32.2% of MPS' ESSER II and III allocation (see Figure 16 on the next page). The largest items in this category include \$74.9 million for remodeling and additions at various schools, \$52.5 million for capital projects related to air quality, and \$25 million for testing and balancing air quality.

As was the case last year, accelerating student learning accounts for the second-largest portion, at \$145.1 million, or 19.9% of the ESSER II and III allocation. The largest items in this priority area are \$15.4 million and \$15 million respectively for social studies and science curriculum adoption and support materials. In addition, \$11.6 million is allocated for the district's virtual instruction contract with Edgenuity and for personnel to support associated programming, and \$10 million is budgeted for tutoring, including 46.9 FTE positions.

Health and wellness again rounds out the top three budgeted priority areas with \$99.2 million of proposed investments, or 13.6% of MPS' ESSER II and III allocation. The largest line item in this category is \$13.6 million contained in MPS' per-school allocation, which provided each school with \$100,000 of discretionary funds. Other line items include \$9.7 million for emergency paid sick leave related to COVID-

19, \$6.7 million for personal protective equipment, and \$6.4 million for expansion of school-based mental health and teletherapy services.

Figure 16: Facilities Remain at Top of MPS ESSER Planned Spending
Designated ESSER II and III funds by category



Source: MPS 2024 Proposed Budget

While the exact amounts allocated to priority areas have shifted somewhat from last year, with the largest swings occurring for accelerating learning (a \$4.8 million increase) and health and wellness (a \$3.7 million decrease), their relative order remains the same with one exception: technology overtook other educational services and programs to become the fourth-largest category.

For each area, MPS shows the specific line items for which they are requesting adjustments to the fall 2022 budget. The largest proposed adjustments are in the facilities area: \$13.3 million removed from air quality projects, \$5.5 million removed from replacing drinking fountains with water bottle filling stations, \$10 million added to remodeling and additions at various schools, and \$5 million added to air quality testing and balancing. Accompanying text indicates that covering cost overages for some line items by moving money away from others is the primary motivator behind these shifts. The ESSER budget narrative is vague, however, on whether proposed reallocations are solely for accounting purposes or also for the sake of making real-time adjustments in response to emerging data on students.

In areas dedicated to student recovery from COVID-19, proposed spending shifts ideally would reflect new insights about where students need the most support and what supports are proving effective. With national, state, and local evidence mounting of COVID's disruption to student learning and well-being, time is short to address student needs while students impacted the most are still in school and before the federal funds expire.

Finally, alongside prioritizing investments on students, the district also must try to avoid using one-time funds in a manner that will create budget gaps in future years. For example, the preponderance of proposed facilities spending may not be directly tied to student outcomes, but it matches one-time funds with one-time costs and effectively chips away at the district's longstanding infrastructure

needs. A similar rationale may support putting ESSER dollars toward curricula, technology, professional development, pilot projects, and short-term programs or contracts with defined goals.

As was the case last year, the 2024 proposal for ESSER spending largely adheres to the fiscal principle that one-time money should ideally be directed to one-time uses. As discussed earlier, however, this year there are two significant exceptions. First, \$13.3 million of ESSER funds are proposed to cover school operations and staff, including a number of music, art, and physical education teachers. Second, \$18 million of ESSER monies replace previous Title I funding for school support staff. These allocations help MPS balance its proposed budget for the upcoming year and preserve the school support positions for now, but they tee up tough decisions for 2025, when the federal funds no longer will be available.

Referendum Fully Phased In

As briefly discussed above, 2024 marks the final year of the phase-in of an \$87 million recurring referendum that Milwaukee voters passed in April 2020. The referendum allows MPS to exceed its state-imposed revenue limit and was intended to help the district bridge the widening gap between its annual expenditure needs and the revenue available to meet those needs. In seeking support from voters, the district publicized the additional investments that a referendum would make possible, including more career and technical education offerings and expanded programs for art, music, physical education, world language, and library services.

The 2024 MPS budget supplement on the [referendum](#) shows the proposed use of the final \$3 million authorized for 2024 in addition to the ongoing use of the \$84 million incorporated into the 2021, 2022, and 2023 budgets. It reveals that on the whole, not much would change in terms of where the referendum dollars are going. The six identified priority areas, grouped from highest-funded to lowest-funded, remain in the same order as last year, although there are some changes in the specific distributions of funds within priority areas.

Under the 2024 proposal, “Attracting and Retaining Certified Educators” retains the highest level of funding at \$28.8 million. This is a \$9.8 million (25.4%) decrease from last year, however. The decrease is largely due to referendum funds no longer going toward the district’s retiree health care obligations.

Fully 95.9% of the total funds allocated to “Attracting and Retaining Certified Educators” are slated for school staff salaries and benefits (see Figure 17 on the next page). This single line item also accounts for nearly a third (31.7%) of the entire referendum budget. It has paid for raises to current employees, including for the salary schedule increases embedded within the overall compensation boost adopted by the district in 2019, before the referendum was passed.

Staff positions created through the referendum (referred to as “additional FTEs” in the budget narrative) account for the majority of proposed spending in four out of the remaining five priority areas. They most dominate the professional support staff area, where \$9.8 million of the \$10.6 million allocation (93.3%) would add 77 FTEs over the full course of the referendum. In the high-quality early childhood education and reduced class size area, \$11.3 million of the \$12.6 million (89.6%) would be allocated for 98 positions added through the referendum. Similarly, referendum-funded positions make up 86.0% of the \$17.6 million allocated for library media, art, music, and physical education (for 142 FTEs) and 62.8% of the \$1.1 million allocated for career and technical education (for 10 FTEs). For the final priority area of advanced academics, 25 new positions funded

by the referendum account for 20.9% of the allocated \$15.7 million. New textbooks are primarily responsible for the remainder.

In addition, new positions account for the largest single line item increase in the 2024 proposed budget as compared to the 2023 budget. Namely, positions for early childhood education and reduced class size would increase by 67.5 FTEs, for a projected fiscal impact of \$7.9 million. In particular, the district notes that these new positions serve the goal of reducing the size of K3 through third grade classes that had averaged exceedingly high enrollments.

These big bets on additional staff – which are central to fulfilling the referendum’s promises – only will pay off if the district is able to successfully attract and retain candidates to fill the positions. Given the district’s staffing challenges discussed elsewhere, however, this outcome hardly seems assured. And even with all of its new listings, MPS could end up with fewer net staff because of vacancies.

The budget narrative indicates that MPS *has* made progress on hiring for the referendum positions. Unlike in the 2023 budget supplement, however, this year the district did not provide a report of the percentage of positions filled in the previous year, which makes it difficult to precisely gauge that progress. Any unfilled positions may help the district balance its budget in the short term, but they also mean that funds set aside to help students – whether through additional positions or any other possible intervention – remain unused.

Figure 17: Staffing and Salaries Remain Top Uses of Referendum Dollars

Proposed FY24 budget referendum spending by bucket and category

	Additional Staff FTEs	Salary and Benefits	Materials, etc.	Professional Development	Facilities	Other
Attracting and Retaining Certified Educators	\$0.44M	\$27.62M	\$0.14M	\$0.62M		
Library, Art, Music, and Physical Education	\$15.11M		\$1.66M	\$0.08M	\$0.22M	\$0.49M
Advanced Academics	\$3.27M		\$0.20M	\$0.19M		\$12.03M
Early Childhood/Class Size	\$11.33M		\$1.32M			
Professional Support Staff	\$9.85M		\$0.21M			\$0.51M
Career and Technical Education	\$1.08M		\$0.12M		\$0.52M	

Source: MPS 2024 Proposed Budget. *Includes fiscal management, curriculum development, band/music/choir instruments, purchased services, and books.

CONCLUSION

Budget season for school districts across Wisconsin – and especially for its two largest districts in Milwaukee and Madison – is marked this year by some degree of hope, but also by great uncertainty and trepidation.

On the one hand, the prospect for significant financial help for districts appears far better than in previous years given the huge state budget surplus, the large increases proposed by the governor, and the apparent openness of Republican leaders to at least some increased funding for schools. Yet, on the other, the expiration of federal pandemic relief funds could produce gaping holes for 2025 that may not be fully filled under even the most optimistic of possible state budget outcomes.

The high stakes with regard to the state budget are graphically illustrated in the 2024 proposed budgets for MMSD and MPS. Both budgets assume the state's per pupil revenue limits will remain the same, and the results are not pretty. At MMSD, 155 positions would be eliminated and much sharper staffing cuts would be averted only via the use of federal ESSER monies, which puts nearly 111 additional permanent positions at risk in 2025 when those dollars are exhausted. MPS also uses expiring ESSER dollars to support hundreds of positions and is only able to avoid cuts by also assuming that hundreds more jobs will remain vacant and by using other legitimate but one-time budget maneuvers.

With enrollment falling in both districts (thus portending continued cuts in both revenue limits and potentially state equalization aids), unassigned general fund balances shrinking, and the state budget unlikely to provide enough additional support to fully offset the loss of ESSER monies, property taxpayers in both districts likely will be under pressure to pay more to sustain existing levels of staff and services, and more cuts may still be needed in 2025.

At the same time, that scenario should ramp up the pressure on leaders in both districts to strategically respond to enrollment declines by seeking opportunities to reduce unneeded positions and right-size their physical space – steps that MMSD is already taking with respect to staffing. The need is particularly great in the case of MPS, which currently has more than 700 vacant positions and which has not updated its long-range facilities plan since 2018.

Going forward, the challenges for both districts will escalate as they seek to make up for student learning losses, compete for teachers in a historically tight labor market, and respond to enrollment challenges from both declining birth rates and competition from other school sectors. We hope this brief provides state and K-12 leaders with greater perspective on the magnitude of these challenges as they deliberate on their budgets for next year and consider how to address them in the long term.

