

# Wisconsin Policy Forum: A fiscal paradox for Wisconsin schools: State austerity, federal largesse

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Tight constraints on state and local revenue paired with an unprecedented stream of federal aid have created a fiscal paradox for Wisconsin's two largest school districts — bolstering their near-term finances while leaving the future deeply uncertain, according to a Wisconsin Policy Forum analysis.

Since 2013, the Wisconsin Policy Forum has produced an annual report on the superintendent's proposed budget for Milwaukee Public Schools (MPS). We began doing the same for the Madison Metropolitan School District (MMSD) in 2020. We have since combined these briefs, allowing readers to see how the districts compare in some respects and contrast in others.

The current state budget largely freezes most state and local revenues for districts for both years of the budget cycle that runs through June 2023. Accelerated school enrollment declines, rising inflation, and exacerbated student needs from the pandemic have heightened budgetary pressures.

Yet at the same time, federal aid totaling nearly \$2.4 billion is flowing to Wisconsin schools, including \$797 million for MPS and \$71 million for MMSD. Most districts are using the funds to address harmful effects from the pandemic, along with other longstanding needs.

“School districts in Wisconsin find themselves in a strange financial position at present, caught between state austerity and federal largesse,” the report finds.

The historic levels of federal pandemic aid offer a major boost for MPS and MMSD in the near term. They could help fund much-needed onetime expenses, such as capital costs, or help students recover from COVID-19 impacts. But in the long term, a combination of factors may put both districts’ finances on a troubling trajectory.

“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... additional steps, many of which lie outside the control of school leaders,” the report finds.

### *Milwaukee Public Schools*

Declining enrollment has been a huge challenge for MPS for years, falling from nearly 100,000 in the early 2000s to 68,404 in fall 2021. The problem has worsened considerably since the onset of the pandemic, with an 8.3% drop at MPS sites from fall 2019 to fall 2021. The proposed MPS budget projects the enrollment decline will continue, but slow, in 2023.

One bright spot for MPS comes from its passage of a 2020 referendum to allow the district to exceed state revenue limits and the effect of the referendum on the district’s allotment of state aid.

If MPS increases property taxes and spending in a school year, the state funding

formula ensures it will receive additional state aid the following year. Referendum spending in 2021 led to a \$37.9 million increase in eligibility for state aid in 2022 compared to what the district would have otherwise received.

Yet this has not stemmed a problematic trend. The district's declining enrollment has revived a longstanding issue of declining school operations revenues — the area of the budget most directly related to instruction – even with the additional dollars brought in by the referendum.

In determining how to spend its historic allotment of federal aid, MPS is making facilities its top priority, targeting areas including building HVAC and ventilation upgrades. Other priorities include initiatives to accelerate student learning, in part in response to the pandemic, and student wellness initiatives to improve physical health, mental health, and social-emotional learning.

The district is using its large number of anticipated staff vacancies as a key budget balancing tool in 2023. The budget assumes a \$38.2 million increase in projected savings from such vacancies, which along with referendum dollars allows it to absorb the \$20.1 million cost of a 4.7% pay increase for staff and meet other “cost to continue” needs. Yet budget officials acknowledge there is risk associated with this move, including the fact that the large numbers of vacancies could have classroom impacts.

### *Madison Metropolitan School District*

Enrollment declines continue to be a leading concern. Last year, Madison projected that after a drop of over 1,000 students in fall 2020, it would gain back 74 students in fall 2021. Instead, the district saw enrollment decline again by 482 students to just 25,396.

With inflation at 40-year highs, the district faces considerable pressure to boost employee pay. At a total cost of \$9 million per year, the proposed budget would increase pay for employees by an average of 4%. That is below the current rate of inflation, which hit 8.3% in April, as well as slightly below the 4.7% base wage increase allowed under state law.

There are positives, including district reserves that amount to 14.6% of annual operating spending, within target levels. The district also is spending its federal aid allotment on priorities including HVAC upgrades at schools, a new reading curriculum, and enhanced mental health services.

Providing the district some relief from state revenue constraints was the 2020 voter referendum authorizing MMSD revenue limits and property tax levy to be increased beyond what state law would otherwise allow. But due to how the state aid formula treats the district, it had a drawback: reducing the district's allotment of state aid. 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 otherwise would have received. Though subject to change, MMSD's initial projections suggest its operating referendum could lead to Madison losing millions in state aid again in 2023.

“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,” the report finds. “When the federal funds run out, this trend will become even more apparent.”