

BUDGET BRIEF

MADISON METROPOLITAN SCHOOL DISTRICT

2021 PROPOSED BUDGET



WISCONSIN

POLICY FORUM



BUDGET BRIEF:

2021 Proposed Budget

Madison Metropolitan School District

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This analysis covers the Madison Metropolitan School District's 2021 budget proposal as submitted to the school board in April by interim Superintendent Jane Belmore. The budget covers the school district's 2021 fiscal year, which runs from July 1, 2020 through June 30, 2021. The school board will adopt a tentative budget in June and the fiscal year will begin in July. However, the budget will be revisited by the superintendent and board in the fall after the district receives final aid amounts from the state (which could be affected by a budget repair bill) and voters weigh in on one or more potential referenda to exceed state revenue limits and increase property taxes. A final property tax levy amount for 2021 will be established at that time.

Cover photo of Madison East High School: WIKIMEDIA COMMONS | AMARKIN2015



INTRODUCTION

With the COVID-19 crisis at hand, the departure of the former superintendent, and the potential for two referenda on November 3, the Madison Metropolitan School District (MMSD) has arrived at an inflection point. Its leaders must make key decisions amid considerable uncertainty.

As with our annual reviews of [the Milwaukee Public Schools](#) budget, this analysis seeks to offer impartial insights into the Madison district's proposed budget and potential capital and operating referenda. Along with our other research, this brief shows the Madison schools:

- Serve a diversifying student body ranging from students with some of the greatest advantages of any in the state to others with some of the greatest challenges and needs
- Have boosted outcomes as well as resources for disadvantaged students in recent years but still face concerning racial and ethnic disparities
- Have modestly declining enrollments despite the area's growing population
- Spend more per student than most districts but are budgeting for job cuts and a slight decrease in overall spending next year even before potential state cuts
- Are relying more and more on property taxes as both state and federal aid fall
- Have reasonably healthy reserves and manageable long-term liabilities at present

However, the coronavirus has left much more unknown. As WPF [recently noted](#), school districts do not know yet whether they will face revenue losses due to state budget challenges and additional costs next fall from potential restrictions on busing, classroom capacity, or lunch arrangements.

Before this crisis, Madison schools already faced a gap between their spending goals and expected revenues in the coming year and those beyond it – both in terms of their ongoing operations and repair and replacement needs in their aging high schools. District leaders had planned to ask voters to raise property taxes to address both those needs through two separate referenda but are now considering whether and how to move ahead with those. They have not yet provided final details on potential referenda or responses to state freezes or cuts though they have offered some guidance.

As a district with property wealth and relatively high spending, the Madison schools receive little general state school aid despite having many underserved students. That has meant an increasing use of one revenue stream – property taxes – to serve all of the district's students, and the factors listed above could intensify that trend.

There are no easy options ahead for the district, its students, or the broader Madison community. This report seeks to explain what is known – and still unknown – about the Madison schools' financial challenges to provide context for the board and voters in their deliberations.

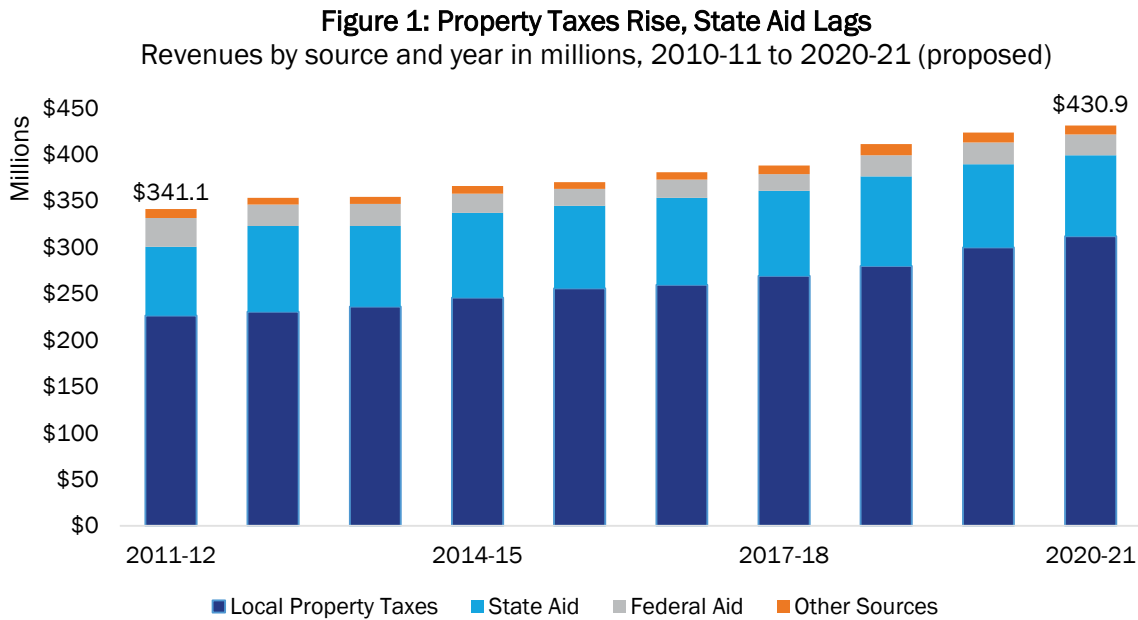


BUDGET OVERVIEW

Revenues for operations

By relying more on property taxes, the Madison schools have maintained growth in revenues since the 2012 fiscal year (the 2011-12 school year) even as state aid has lagged and federal aid has fallen. Figure 1 shows projected revenues in the district’s operating (general and special education) funds in 2021 (the 2020-21 school year) would be 26.3% higher than 2012. Budget estimates also show property taxes next year would be 37.7% higher than in 2012, an increase of more than twice the rate of inflation. These budget estimates do not account for potential referenda in the fall or possible changes in state aid or revenue limits due to COVID-19.

Driven by a decrease in equalization aid (see Key #2), overall state aid is expected to fall for the second year in a row. The 2.7% decrease in 2021 would leave state aid only marginally higher than in 2011 prior to a cut in state aid the following year. Last, federal aid is expected to fall 4.1% in 2021, leaving it 27.2% lower than in 2012 even before inflation. The district estimates it will get additional one-time federal aid of at least \$3 million through the Coronavirus Aid, Relief, and Economic Security (CARES) Act but that is not yet confirmed.

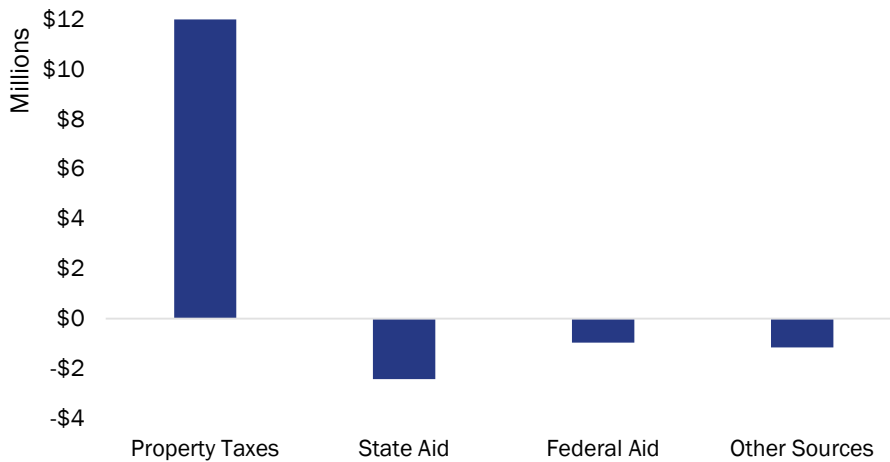


Sources: Madison Metropolitan School District budgets; 2020 is budgeted and 2021 proposed

As a result, the share of the operating budget from local revenues (primarily property taxes but also investment income and student fees) has grown from 66.4% in 2012 to an estimated 72.3% for 2021. The share from state and federal aid has dropped from 30.8% to 25.5%. Figure 2 breaks down the district’s estimated \$7.5 million, or 1.8%, increase in operating revenues in 2021 by source, with projected local taxes up nearly \$12 million and all other revenues down \$4.5 million.



Figure 2: Only Property Tax Revenues Growing
Change in 2021 Operating Revenues by Source in Millions

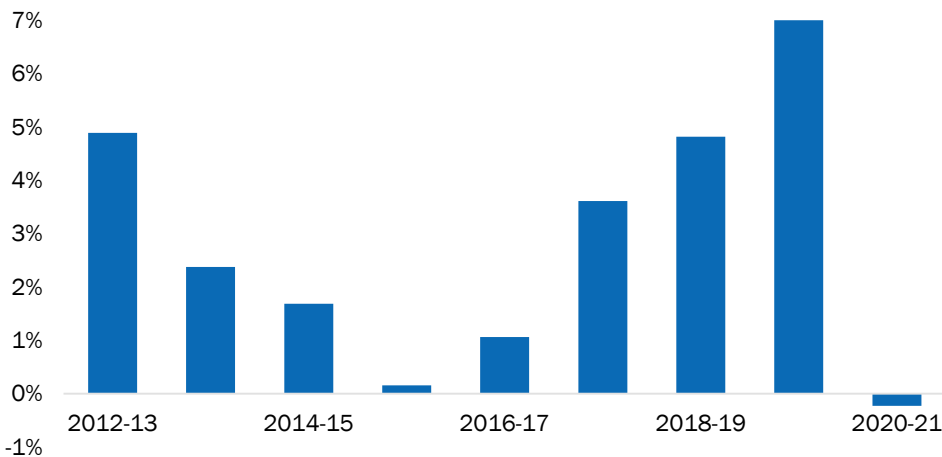


Sources: Madison Metropolitan School District budgets; amounts are as budgeted or projected

Spending on operations

Under the 2021 proposal, general and special education fund spending would total \$432 million, a slight drop of 0.2% (see Figure 3). The budget would use the revenue growth from property taxes to avoid repeating last year's drawdown of the general fund balance, leaving spending basically flat. The previous several years saw larger spending increases because of a successful 2016 referendum to increase the operating budget over four years.

Figure 3: Spending Increases over Time
Percentage change in operating expenditures by year



Sources: Madison Metropolitan School District budgets; 2020 is budgeted and 2021 proposed

Spending on regular instruction such as math, English, science, and other subjects has nearly kept pace with inflation but has fallen from 39.4% of operating spending in 2012 to 34.9% under the



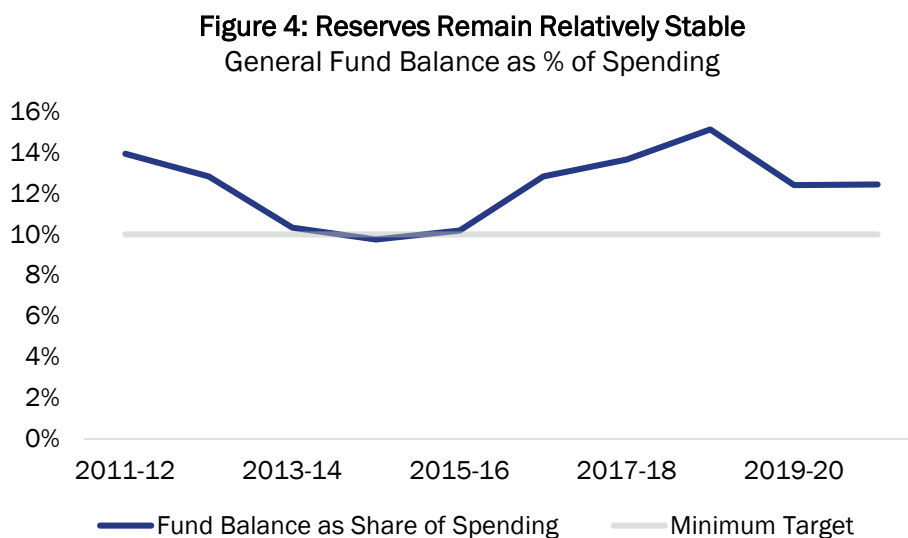
2021 proposal. Meanwhile, 2021 spending on special instruction such as for students with disabilities would be 44.8% higher than 2012, rising from 15.5% of expenditures to 17.6%.

Some of this shift reflects an accounting change that reclassified some English as a Second Language (ESL) staff and not an actual change in spending. The Madison schools also have increased class sizes for regular education in higher income schools to bring them in line with district policies and added staff to support special education students. Because combined state and federal aid to support students with disabilities has lagged, the rest of the budget has experienced greater pressure as well as the district has sought to meet its special education needs.

Finally, proposed spending would be 32.7% higher than 2012 for pupil services, which includes nurses, guidance counselors, social workers, psychologists, speech pathologists and cross-categorical staff who simultaneously help students with different disabilities and needs. In addition, expenditures would be 56.2% higher than 2012 on instructional staff services such as curriculum, libraries, and technology used in teaching.

Reserves relatively stable

Prior to the pandemic, the balance in the district’s general fund – its main set of accounts – was projected to be \$53.7 million at the end of June 2020 and the proposed budget would maintain those relatively healthy reserves through June 30, 2021. As Figure 4 shows, the projected balance would amount to 12.4% of operating spending. Madison’s balances are somewhat [below the statewide average](#) for districts and below its own June 2019 mark of 15.1% but within the district’s target range of 10% to 15%.



Sources: Madison Metropolitan School District budgets; 2020 is budgeted and 2021 proposed

The district could potentially draw on its balance to cope with a cut in state aid or revenue limits. However, that benefit would come at some longer-term cost as the district uses its balance to lessen short-term borrowing and maintain a strong bond rating and low interest rates on long-term debt.

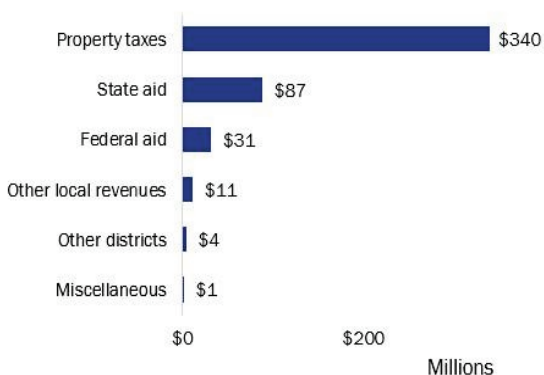


All funds budget and property taxes

The 2021 budget proposes a spending decrease of \$3.2 million, or 0.7%, to \$476.1 million across all funds, which include the operating funds listed above as well as the district’s debt service, capital project, food service, and community recreation funds (see Figure 5). Revenues would grow by 1.1% to \$473.4 million and the district would use just over \$1 million in debt proceeds. Across all funds, the district’s total balances would decrease 2.6%, from \$61.5 million to \$59.9 million.

Taxes Before Referenda
 Total property taxes would rise 2.9%, or \$9.4 million, to \$339.5 million. Taxes on the average home valued at \$311,500 would rise an estimated 1.4%, or \$46, to \$3,386. These figures do not account for any referenda, however.

Figure 5: All Funds Revenues \$473M



All Funds Expenditures \$476M



Source: Madison Metropolitan School District budget

Long-term liabilities

In terms of long-term obligations, the Madison schools are currently well positioned, although the potential capital referendum would increase debt substantially (see Key #4). The district participates in the [well-funded Wisconsin Retirement System](#) and has unfunded retiree health and life insurance liabilities (also known as OPEB liabilities) of \$27.5 million as of June 30, 2019 (see our [October 2019 report](#) for more on the issue). For comparison, the Milwaukee Public Schools projected an unfunded OPEB liability of \$735.9 million as of June 2019. Going forward, investment losses and health care expenses from COVID-19 could add to the costs of retiree benefits for all districts.

Excluding capital leases, the district was expected to end the 2020 school year with \$58.4 million in general obligation debt, down 15.3% from the previous year and 9% from \$64.2 million at the end of 2011, according to its financial statements. Payments on long-term debt in 2020 were expected to total \$12.7 million. Those amounts would rise if a referendum passes.

Student demographics and achievement

The Madison schools include both high-earning families and others who faced poverty and housing challenges even before the impact of COVID-19. These unusual demographics are crucial to an understanding of the district’s finances and goals.



In 2019 (or 2018-19), students of color made up 57.8% of enrollment, which was nearly twice the state average, ninth-highest among all districts, and behind only Milwaukee and Racine among the 10 largest districts, according to DPI data. Nearly half - 48.2% - of Madison students were reported as economically disadvantaged in 2019 compared to 40.7% statewide. Madison ranks seventh among the 10 largest districts for its share of low-income students but in the top third of all districts.

Nearly one out of every five Madison students - 19.9% - are classified as English learners by DPI, which was more than three times the statewide share of 6.0%, seventh highest among all districts, and second only to Green Bay's 22.3% among the 10 largest districts. The share of Madison students with disabilities is 14.5%, compared to 14.0% statewide.

Each of these student groups needs the community's support, both inside and outside of Madison schools, and test results underscore that. The Forward Exam is typically taken by students in third through eighth grade in both English language arts (ELA) and math and results show both some improvements for Madison students and ongoing disparities.

Among students opting to take the test, ELA proficiency rates have improved slightly from 36.5% to 36.7% from 2016 to 2019, while statewide rates for all students fell from 43.3% to 41.5% over the same time period. Math proficiency in MMSD has improved for three straight years and is up to 40.1% in 2019 compared to 37.3% in 2016, whereas statewide scores rose to 44.0% proficient from 43.2%. Madison typically has more students opt out of taking the Forward Exam than districts statewide and officials have questioned whether more of its opt-out students come from higher-income households - a possibility that if true could hinder these comparisons.

Another test, the Measures of Academic Progress (MAP), shows white, black, and Latino cohorts in Madison elementary schools have made improvements from 2015 to 2019. However, despite improvements of seven percentage points (15% to 22%) for math proficiency rates for black students and four percentage points (27% to 31%) for Hispanic students, the achievement gap widened because white students improved from 71% to 79% proficiency.

Low-income students and their peers who were not low-income have shown similar gains, as have students who are English learners and those who are not. In other words, outcomes are improving for most demographic groups within Madison schools but large disparities persist.

Finally, attendance rates in 2019 were higher or the same and dropout rates were lower for black and Latino students as well as English learners in Madison compared to districts statewide. Economically disadvantaged students in Madison fared slightly worse on both measures than the statewide average.

Enrollment ticks down

Enrollment is projected to fall by 51 students, or 0.2%, to 26,832 in 2021 (again 2020-21), which would put it down 1.2% from its 2015 (2014-15) peak of 27,166. This measure tracks the number of four-year-old kindergarten to twelfth-grade students in district classrooms as opposed to students who reside in the district but attend a different public or private school.

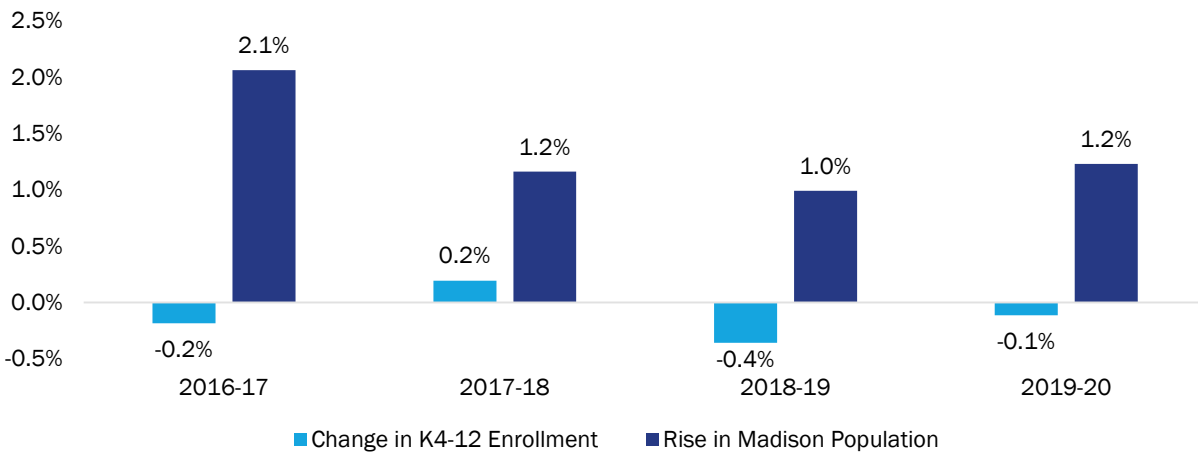
Enrollment can affect state aid and revenue limits as well as district costs. The decline in Madison school enrollments was just slightly smaller than state public schools as a whole from 2015 to 2020, according to the similar September enrollment count reported to DPI.



Broader counts are used for determining state equalization aid (the formula uses prior year enrollment) and the district revenue limit (based on a three-year average). For 2021, both the aid count and the revenue limit counts are expected to rise modestly.

Though district enrollments are falling, the population within the somewhat different boundaries of the city of Madison is growing (see Figure 6). The gap is mostly due to the city’s low birthrate – the young workers and retirees moving to Madison have children at low rates.

Figure 6: Rise in Madison City Residents, Drop in Students
Percent Change by Group, 2016-17 through 2019-20



Sources: Madison Metropolitan School District; Wisconsin Department of Administration

The district’s students in seats enrollment shown in Figure 6 is also affected by losses to independent public charter and private voucher schools and to other public districts through open enrollment. The losses can affect the district’s revenues and spending in complex ways, with independent charter students counted for state aid and revenue limit purposes but voucher students not counted.

In 2020, the two independent charter schools then in the district had 238 students living within the Madison schools area, according to the district’s [fall enrollment report](#). The district has estimated it will see a net loss of \$2.5 million in state aid in 2021 after accounting for the fact that state revenue limits allow the district to raise property taxes to recoup part of the lost revenue.

In addition, private school students in the district’s area participated in the statewide and special needs voucher programs. The state takes funding for them from the district’s aids and the district in turn can raise property taxes by \$1.8 million to help offset the loss. The combined impact of voucher and independent charter enrollment in 2021 is estimated to increase by \$1.2 million to \$4.8 million.

Under open enrollment, the Madison schools in 2021 are projected to lose 700 students more than they gain for a net loss of nearly \$7 million flowing to other districts. In some cases, Madison schools may be able to reduce spending because of the reduced enrollment but in other cases not, such as classes that must still be taught even though they have one or two fewer students.



Workforce to shrink, compensation might climb

Driven by the enrollment drop as well as the budget picture, the district workforce would fall under the proposed budget for the second straight year, declining 1.2% in 2021, or about 47.5 positions, to a total of 4,020 full-time equivalent positions. Staffing decisions may still change according to factors such as actual fall enrollments.

The job cuts have happened largely at elementary schools, reflecting in part that the enrollment decline began in the early grades. The district has also sought to raise any unusually low class sizes. The budget would enlarge the ranks of student services staff and student support teachers for the second year in a row, however, to provide more resources for students with disabilities.

The district's main costs for its operations lie in its teachers and other employees. Nearly 82% of operating spending goes to employee salaries and benefits. The district has been increasing wages amid what until recently was low unemployment and a competitive labor market in Madison.

For 2020, workers received a 4.44% average wage increase, with increases of 2.44% in base wages and 2% in the schedule providing higher wages to those with more experience and education. The 2019 increase was 4.13%, with a 2.13% base wage increase and the rest in the schedule.

The 2021 proposal again would outpace inflation with a pay increase of 3%, with 1% going to base wages and the rest to the schedule. These increases assume the district will receive the state aid and revenue limit increases laid out in the current two-year state budget. If lawmakers change those amounts, the district likely would have to revisit the proposed increases or go to referendum.

The district has approved changes to save on health coverage, which is expected to cost \$64.8 million in the 2021 operating budget. On July 1, the employee share of health insurance premiums goes to 6% from 3% for teachers and to 2.5% from 1.25% for educational assistants and food service workers. The district also adopted a \$100 deductible for workers on single plans and \$200 for family plans.

Employees still will contribute less to their health insurance than in most other districts. According to state [Department of Administration data](#), the median employee contribution for all districts statewide was about 12% of the premium for single and family plans.



KEYS TO UNDERSTANDING THE 2021 PROPOSED BUDGET

Key #1: What flat spending would mean

After several years of healthy spending increases, the current proposal would keep operating spending essentially flat. To do so, the budget would cut positions, increase employees' share of health care costs, and forgo some staff raises and efforts to reduce student disparities based on race, disability, or socioeconomic status. However, the current spending plan would still provide some new funding for disadvantaged students and staff pay increases above inflation.

Much could still change. Falling tax collections may force the state to freeze or cut aid to districts and the revenue limits on how much districts can raise in general school aids and local property taxes. The district already expects a loss in state aid in 2021 based on the current state budget and aid formulas but could be particularly impacted by any change to the current \$179 per pupil increase in revenue limits scheduled for this coming school year. If the limits were instead frozen, Madison schools would lose \$4.9 million in expected new revenue and would have to consider cutting or delaying spending or drawing down reserves to cover that amount.

However, the district could ask voters to counter the effects of any state budget repair actions via its potential referendum for increasing its operating budget. Originally advanced as a way of increasing the district's spending over the level in the current budget, a change to the current revenue limit might mean a referendum would instead be deciding whether or not to replace potential lost revenue and keep the current budget as is.

The 2021 proposal would include district funding of \$400,000 for K-5 reading materials in English and Spanish, \$250,000 to provide students of color and others with opportunities to earn college credit in science, technology, engineering, and math courses, \$215,000 for behavioral health programming and efforts to help students coping with trauma. It would also continue a pilot project to serve high school students with challenges such as being off track from graduating. Key #4 details certain other initiatives to reduce student disparities that would require a referendum to finance.

As noted above, district staff would receive wage increases of 3% under this budget. Some might question whether those increases should outpace inflation (1.8%) given the current crisis and

The current budget would save an estimated:

- \$2 million by increasing class sizes that were below the district standard (see page 10)
- \$1 million by cutting eight central office positions
- \$3.8 million through changes to health care plans, copays and premiums
- \$700,000 through changes in purchasing, personnel services, summer school and other budget items



depressed labor market. At the same time, the district may feel compelled to try to recognize the contributions of more experienced teachers who may feel reluctant to return to classrooms if COVID-19 continues unabated into the fall. District leaders, who must by law bargain with the teachers union for base wages, could revisit those amounts if revenues fall short of current estimates.

COVID Crisis Impacts Spending

Though no comprehensive figures are yet available, the coronavirus is clearly leading to an increase in emergency spending for the district and a loss in some revenues. For an initial look at the district's response to the threat – and some of its costs – go to our recent reports [on school finances](#) and [student internet access](#).

District officials have said in the coming days they may consider setting aside some of the overall proposed spending in a specific line item that they could more easily and transparently reduce if revenues deteriorate.

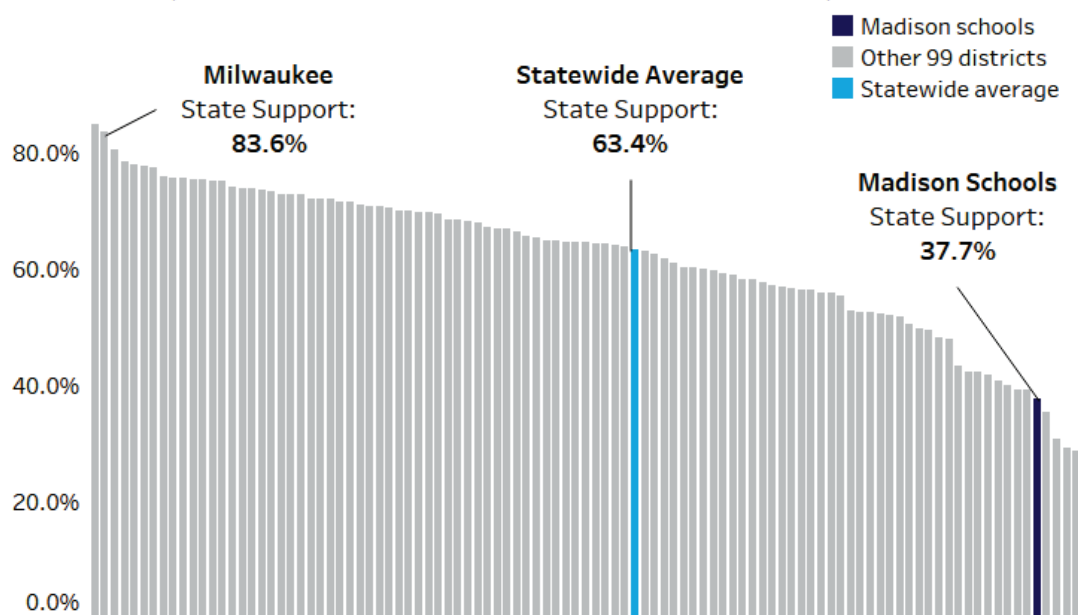
Key #2: Loss of state aid to grow larger

One of the foremost financial challenges facing the Madison school district stems from the erosion in state general school aids. The trend means the district must raise property taxes just to maintain the previous year's spending on operations. In the current crisis, the district's reliance on property taxes may insulate it somewhat from further state aid cuts, but the long-term challenge is clear.

Each year, the non-partisan [Legislative Fiscal Bureau estimates](#) the share of revenues in each district covered by state school aids as well as a property tax credit based on K-12 tax levies. For 2019, LFB calculated Madison received only 37.7% of applicable revenues from state aid and the school levy credit. That was well below the statewide average and less than half what Milwaukee received, putting Madison 96th lowest among the state's 100 largest districts (see Figure 7). For that main reason, the Madison schools tax levy for this year was higher than that of the Milwaukee Public Schools, despite Madison having one-third as many students and similar per pupil spending.

Figure 7: Madison Relies Less on State Support than Nearly All Large Districts

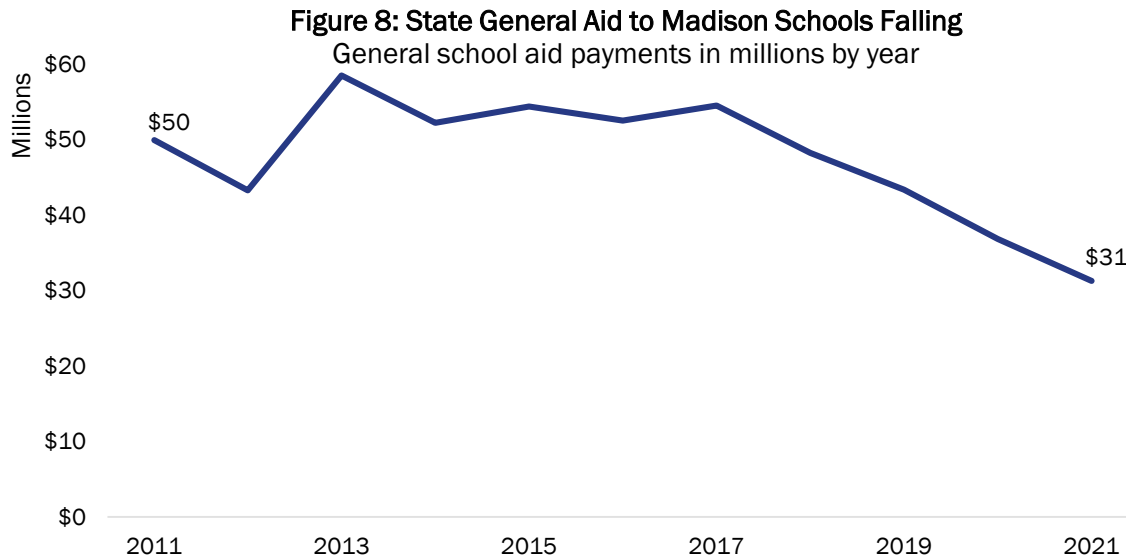
State aid, tax credits and other revenues as % of select school revenues, 2019 estimates



Source: Wisconsin Legislative Fiscal Bureau



The main reason is how districts like Madison with higher property values and spending are treated by the state’s main funding formula, which caused general school aids to fall from nearly \$50 million in 2011 to a projected \$31.3 million in 2021 (see Figure 8). Those aids are expected to drop by the maximum 15% for the second year in a row and to keep doing so under a key state formula because of Madison’s higher spending and property values.



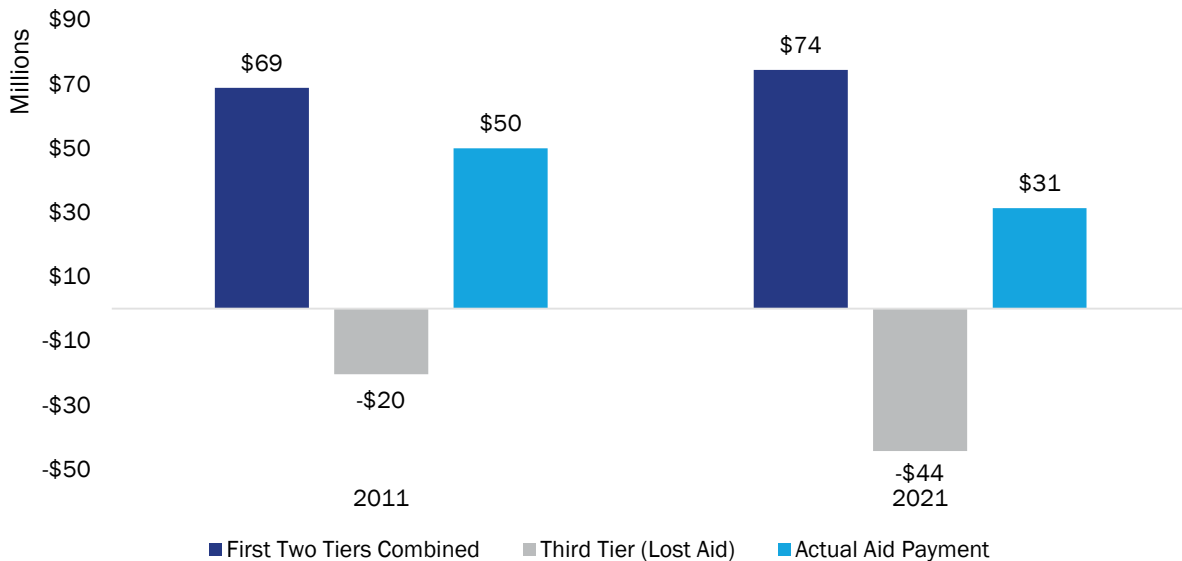
Madison is mainly losing a form of general school aids known as “equalization aid,” which is primarily meant to even out property tax rates between school districts with different property values but similar spending per pupil. The equalization aid formula factors in a certain enrollment figure, the amount of a specific type of spending known as “shared cost,” and the value of the property in the district. In general, districts with more students and less property value per pupil receive more aid. The formula does not directly factor in student poverty or other characteristics.

Under the formula, districts with below average property values receive at least some additional state aid the more they spend. For districts such as Madison with higher property values, one of the three parts, or tiers, of the state formula works differently. Up to a certain spending threshold (\$9,782 per student for the 2020 school year), a district generally receives more in state aid as it spends more per pupil from the first two tiers of the formula. Together, those parts of the formula gave Madison schools \$74 million in 2021, up modestly from \$69 million 2011 (see Figure 9).

But for districts like Madison with above average property values and spending per pupil, the third part of the state formula actually subtracts aid. In this third tier, Madison is losing a projected \$44 million in 2021, more than double the \$20 million lost in 2011. The state limits general school aid decreases to 15% or Madison would be losing even more this coming year.



Figure 9: Why General School Aid is Falling in Madison
 First two positive parts of state formula are flat, loss from third tier is growing



Sources: Madison schools; DPI; actual payment includes other amounts and 2021 figures are projected

Over time, Madison’s property values in particular as well as its spending per student (see Key #4) have been rising more quickly than the state averages. That hurts the district within the formula.

For example, for 2020 Madison schools reported qualifying spending of \$11,942 per pupil (this number is based on prior year spending). In all, the district spent more than \$60 million beyond the threshold in the third tier and as a result the district’s aid eligibility fell by 61% of that amount, or \$36.9 million. The extra spending has this effect because of the district’s high property values.

These figures might suggest a successful fall referendum to increase spending would trigger further losses in aid within the formula’s third tier. That was the case last year. In 2016, district voters approved a referendum to increase property taxes and spending by \$18 million in the 2019 school year. Along with an above average increase in property values and other factors such as enrollment, that spending contributed to the district losing nearly \$11 million in state equalization aid in 2020. The extra spending in Madison did not produce the result on its own but only in conjunction with all the other factors within the formula for the district and others around the state.

Going forward, however, district officials say a potential fall referendum would not affect future state aid given the nature of the formula and trends in the district and the rest of the state. That’s because staff project that even without a referendum, Madison schools will lose more than 15% of their general school aids each year going forward, triggering the state’s hold harmless provision.

Predicting this question is difficult since it depends not just on factors in Madison but in districts statewide. Over the past decade, the district has triggered the 15% clause three times, including 2020 and the projection for 2021. What is more clear is that aid is likely to keep falling – in part because of strong property values in Madison that are outside the district’s control. Within a few



years, the district will only receive aid from the first part of the state formula. The funding from that primary tier is not affected by higher spending and so after that point referenda would not affect aid.

It is also worth noting that last year Governor Tony Evers unsuccessfully proposed embedding a poverty factor into the state’s general school aid formula. A full report would be needed to explore the merits and tradeoffs of such an approach, but for the Madison schools at least it would make a difference by accounting for the fact that, despite its high property values, the district serves many low-income students and students of color who on average have greater challenges and needs.

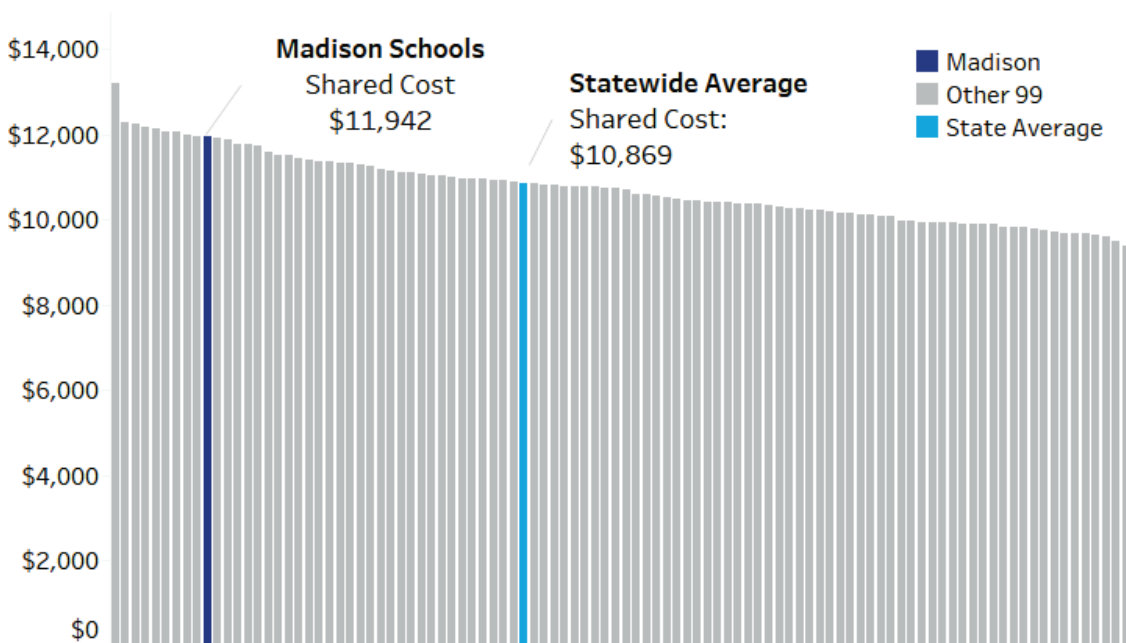
Key #3: How Madison spending compares

One factor voters may wish to consider in the referenda (see Key #4) is the district’s current level of spending. On multiple measures, Madison schools take in more revenues and spend at a higher level than most other districts in Wisconsin. Factors include lower student to staff ratios compared to the average district and somewhat higher compensation for teachers, according to DPI data.

The higher spending should be viewed in the context of Madison’s higher cost of living and the district’s large share of underserved students with greater needs, including students with disabilities, low-income pupils, students of color, and English learners. Also, Madison’s relatively high property taxes reflect low levels of state aid (see Key #2) and not just the district’s spending.

Below we show several per pupil revenue and spending ranks for Madison schools, with the first being the “shared cost” measure of spending used to determine equalization aid each year. Under that metric, Madison spends about 9.9% more than the statewide average for districts and ranks 10th among the 100 largest districts by enrollment (see Figure 10).

Figure 10: Madison at Number 10 Among 100 Largest Districts
Per pupil “shared cost” spending used for 2020 equalization aids



Source: Wisconsin Department of Public Instruction

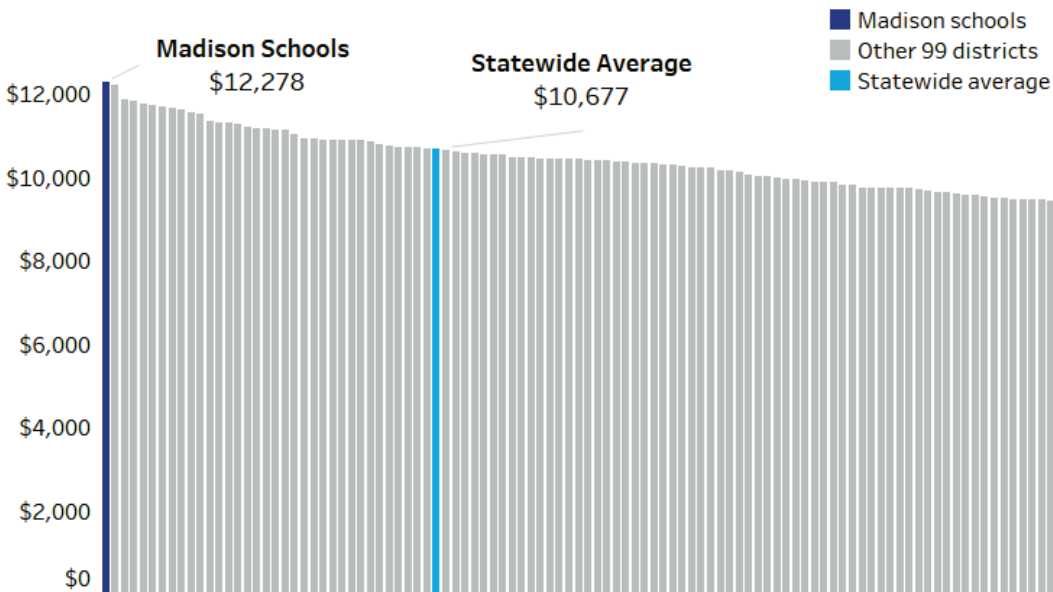


Looking at the core funds subject to state-imposed revenue limits – local property taxes and state general school aids – Madison schools were allowed to take in about \$12,278 per student in 2019, or about 15% more than the state average of \$10,677, according to state [Department of Public Instruction data](#). The district actually used slightly less of its limit than allowed that year.

Boosted by the district’s 2016 referendum, Madison had the highest revenue limit among the 100 largest districts (see Figure 11). More than 50 smaller districts have higher revenue limits, however.

Figure 11: Madison Schools Core Revenues Highest Per Pupil Among 100 Largest Districts

Revenue limit (general state aid plus property tax) per student by district, 2019



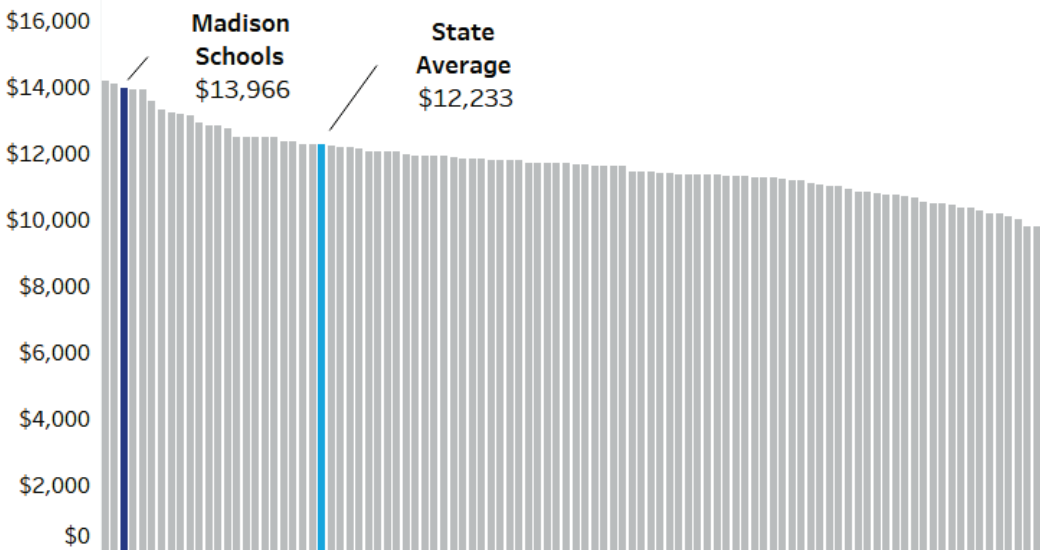
Source: Wisconsin Department of Public Instruction

The previous two measures leave out other sources of funds such as federal aid as well as state categorical aids that help defray specific costs for transportation, English learners, and those with special needs. We included those in the district’s total spending on instruction but excluded debt payments, capital spending, food service, community recreation programs, and payments to other public and private schools).

Using that approach, we find that per student spending in Madison in 2018 ranked third among the state’s 100 largest districts at \$13,966 (see Figure 12). That places the district below Milwaukee (\$14,165) and La Crosse (\$14,067) and just above Racine (\$13,914). Madison’s spending using this approach is 14.2% higher than the state average of \$12,233.



Figure 12: Madison Spending Near the Top of Large Districts
Instructional spending per student in the 100 largest districts, 2018



Source: Wisconsin Department of Public Instruction

Notably, federal and state categorical aids do not cover the full costs of serving certain special student groups. In a recent [report on special education funding](#) in Wisconsin, we found that the Madison schools in 2016 devoted about 15.6% of the spending allowed under state revenue limits to special education costs that were not reimbursed through those state and federal aids.

Key #4: Referenda ahead? Operations up first

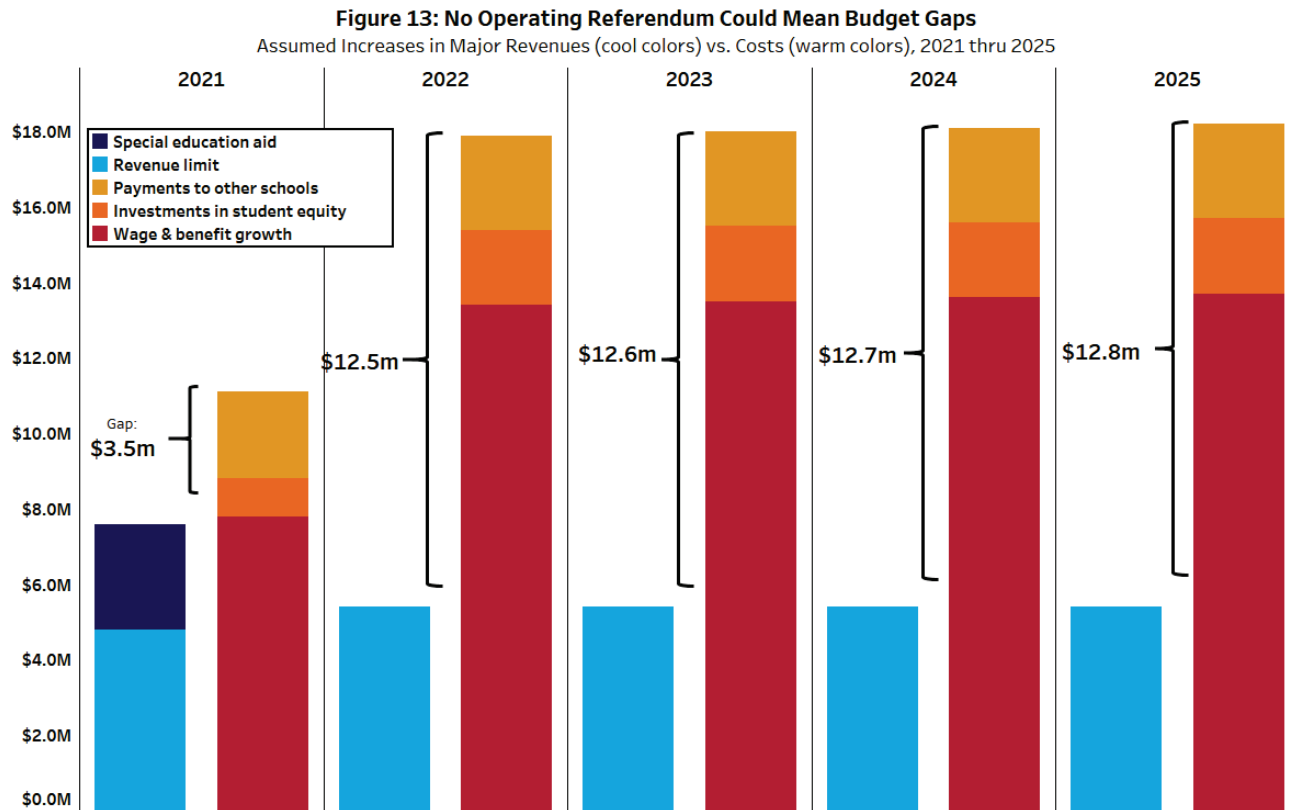
In recent months, the district has considered asking voters to approve two referenda to raise property taxes, one for the operating budget and the other for capital projects at the district's four high schools and other buildings. A referendum to increase the 2021 budget now seems less likely. But it could be pursued for future years or to ensure the district receives the estimated \$4.9 million from the \$179 per pupil increase currently allowed under state revenue limits even if that amount is changed by lawmakers and the governor.

Prior to the current crisis, the district was considering a referendum to raise taxes and operating spending over the proposed 2021 budget (and above state revenue limits) by \$6 million with further increases of \$8 million in 2022, \$9 million in 2023, and \$10 million in 2024. A vote is still possible on the increases in 2022 through 2024.

Though the additional \$6 million for 2021 now seems unlikely, the district previously said it would use a little more than a third of that money this year for staff base wages, \$700,000 for student equity efforts, \$600,000 more for new K-5 reading materials in English and Spanish, and the rest for attracting and retaining diverse, high-quality teachers, increasing programming in science, technology, arts, and music, and a pilot program for full day four-year-old kindergarten.



Before the release of the proposed budget, the district projected that with a roughly \$200 per student increase in state revenue limits per year after 2021 and no referendum, its expected budget gap, or structural deficit, would grow from \$3.5 million heading into 2021 to about \$12.5 million in 2022 and later years (see Figure 13). This gap takes into account new revenues of around \$5.4 million in each of the future years plus existing obligations and future spending goals such as reducing student disparities and increasing staff pay by 2% in base wages plus a similar amount in the salary schedule. This gap is before any potential change to state revenue limits that may result from a state budget repair bill or the spending cuts in the proposed budget.



Source: Madison Metropolitan School District

Without the additional property taxes resulting from a successful referendum, new revenues provided by the state, or some new efficiencies, the district might have to consider increasing staff cost sharing for its health coverage, scaling back targets for compensation increases for staff of roughly \$10 million a year starting in 2022, scaling back its goal of \$2 million in annual increases for equity efforts, or other measures. It would take roughly no new wage increases or spending targeted toward reducing disparities to close the budget gap – a challenging path to sustain.

Capital projects to consider

As proposed before the crisis, a capital referendum could include \$317 million in projects: \$280 million to renovate Madison’s four main high schools, \$6 million to update Hoyt school to house Capital High, and between \$25 to 30 million to build a new elementary school in the Rimrock area. If

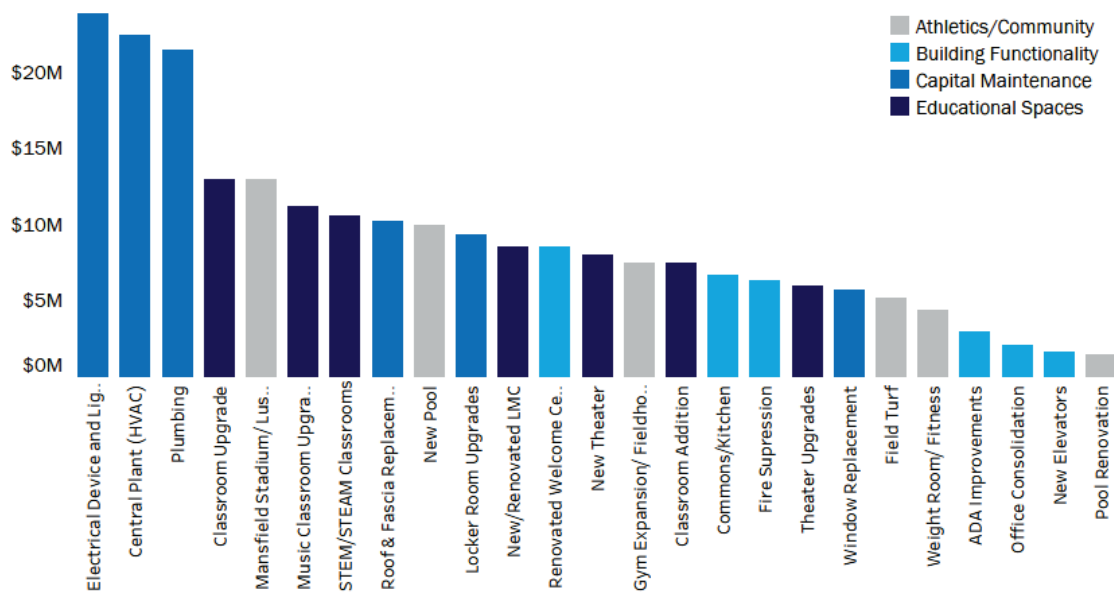


approved, the capital referendum would increase the overall Madison schools property tax levy by an estimated \$12.8 million on bills sent out in December and paid in 2021.

The district’s four high schools are all more than a half century old with no major addition since 1975 for West High, 2001 for Memorial, 2003 for La Follette, and 2019 for East High. The district has opted not to allocate the money by specific needs and instead would provide \$70 million for each high school. All four schools are seeking to fix leaking roofs, install or update sprinkler systems, meet requirements for those with disabilities, and upgrade mechanical and electrical systems.

As rated by a consultant, each of the four high schools generally received a C or lower condition rating (East received a D for “below standard or exceeding life expectancy”) for categories including life safety, accessibility, mechanical and electrical, and energy efficiency. Figure 14 shows the proposed projects and combined amounts at the four high schools.

Figure 14: Proposed Maintenance Projects for High Schools



With the additional Rimrock school project, the district wants to establish a site for a population who are overwhelmingly low-income students of color and who spend as much as 42 minutes on a bus. The district does not own and as such cannot improve an aging school in this area used for Nuestro Mundo, a dual language public charter school. The district would also renovate Hoyt school to establish a single site for the 160 students of Capital High, who are currently in borrowed space in Lapham Elementary School on the east side and in an overcrowded strip mall space on the west side.

Notably, \$317 million in borrowing and capital projects would have a substantial impact given that the district currently has \$58.4 million in general obligation debt. By 2027 the annual payments on the referendum debt would ramp up to \$22.7 million and run through 2043. Though no ballot questions have been approved, potential referenda for the capital projects and replacing any loss of the current revenue limits could leave voters considering a hypothetical levy increase that could approach a combined \$18 million in 2021.



Though Madison is a generally prosperous community, this impact would be felt, particularly by low-income residents who already struggled to afford housing before the current crisis. In light of that, some might ask whether it would be better to focus the request to voters for now on the operating referendum in general and the needs of underserved students in particular and try to delay other new spending, particularly on capital projects. Building a new elementary school during a time of falling early grade enrollments also might raise questions though as noted the project is to provide Rimrock area students with a closer school and the district cannot renovate an existing area school because it is leased.

On the other hand, delaying the capital projects could raise costs through higher spending on maintenance, interest rates that could rise from their current lows, and construction firm bids that could come in higher after this economic crisis. In addition, the question of fairness for students is present in the Rimrock school and Capitol High decisions as well as some projects within the four high schools. Ultimately, the voters will decide on any request from the board.



CONCLUSION

The future is uncertain, but the Madison school board and local residents clearly have hard decisions ahead. The full financial impact of COVID-19 – including potential state freezes or cuts and the full amount of federal aid – is unknown and the district is still waiting to see how and when students can return to the classroom. Some of the district’s key long-term challenges discussed in the report – declining state aid and disparities in student outcomes by race and socioeconomic status – will be difficult to address amid this crisis and could be exacerbated by it.

The impact of the coronavirus on student learning likely is already being felt and it could take substantial time and effort from families and the district to make it up. In addition, the lingering effects of the virus – and a possible resurgence in the fall – could lead to any number of unforeseen costs to the Madison schools. In light of that, it is prudent that the district has crafted a budget that maintains its reserves and provides a cushion against adversity in the months ahead.

To do that, however, district leaders had to hold spending flat in their current proposal and would need to cut nearly 50 positions. Any further loss of revenue from the crisis might require further cuts or efficiencies. To counteract that, the district does have the option of putting one or more referenda to voters but would not know until November 3 what they decide. The school board would then need to act swiftly to approve a final budget and tax levy.

In light of that, communication with stakeholders and the community will be paramount in the weeks and months ahead. Though district leaders cannot predict the future, they can try to explain how they would react to different scenarios. One option district officials have already mentioned is to set aside a specific budget line for potential spending that could be cut in the event of further challenges. School finance is an opaque subject in the best of times – clarity is needed now more than ever and we hope this brief furthers that goal.

The district and its students and families together had made some gains in recent years. Much more remains to be done, but now even that progress has been thrown into doubt. In the difficult months to come, the Madison schools and greater community may have to call on all their ingenuity and foresight just to maintain what they have.

