



Challenges Facing the Milwaukee Public Schools

The MPS Budget

Introduction

The Milwaukee Public Schools has the largest budget, by far, of any school district in Wisconsin and even most municipalities. The \$1.2 billion budget adopted by the MPS Board for the 2008-2009 school year tracks closely to the 2009 budgets for the City of Milwaukee and Milwaukee County of \$1.4 billion each.

The scale of the budget correlates to the responsibilities the district has to its approximately 86,000 students. MPS students are enrolled in 207 schools, including 121 elementary schools, 12 middle schools, 58 high schools, seven schools combining middle and high school programs, and two schools featuring elementary to high school

programs. These schools are a mix of traditional, charter, and partnership programs. With more than 14,000 staff, including 5,600 teachers and nearly 300 principals and vice principals, the district is one of the largest employers in the region.

Sources of MPS funding include the state and federal governments and Milwaukee property taxes. The MPS portion of the city of Milwaukee property tax is approximately 1/3 of the total levy. As a result, the district's elected and appointed leadership faces considerable pressure to be accountable for the money it spends. Parents, taxpayers, local businesses, community partners, and other units of government look to MPS for graduates prepared to take

advantage of post-secondary education opportunities and who are ready for work and citizenship.

In recent years, MPS administration and members of the school board have faced criticism for low graduation rates, faltering student achievement, and a lack of fiscal discipline. In the summer of 2008, Wisconsin Governor Jim Doyle, in conjunction with Milwaukee Mayor Tom Barrett, requested an audit of MPS expenditures. To improve student achievement and rein in the district's finances, elected officials and community leaders have suggested measures that range from transferring control of MPS to the mayor or the governor to restructuring the system into several smaller districts.

The MPS budget faces formidable challenges—from the funding formulas used by the state to determine the bulk of district financing, to teacher and staff compensation and benefits, to the long-term obligations of its retiree healthcare plan. The cost of student transportation, approximately \$55 million in the 2008-2009 budget, and expenses related to facilities, present significant fiscal and programming challenges for district leadership. In addition, changes in the economy that affect the cost of energy and goods and services also constrain funds available for instruction.

The aim of this report is to provide a high-level overview of the elements driving revenue and expenses in the MPS budget, and provide a framework for a community dialogue regarding the district's fiscal woes.

Key Issues Driving Revenue and Expenses in MPS

In a March 2007 report, *Challenges Today and Tomorrow: An Analysis of the Present and Future Financial Condition of MPS*, the non-partisan Wisconsin Taxpayers Alliance (WTA) concluded that the district's finances faced pressures from:

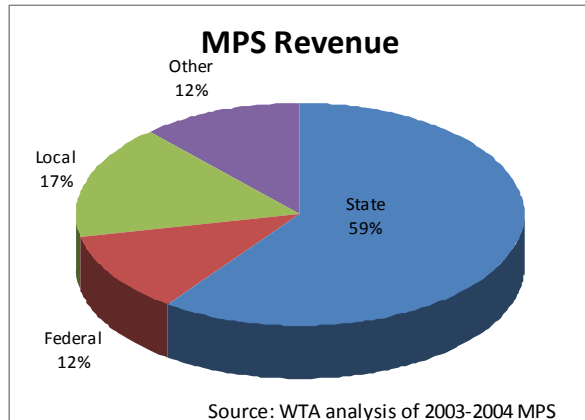
- Lost market share due to students migrating from the district to the Milwaukee Parental Choice Program, parochial, and private schools
- Rising cost of the district's compensation packages, particularly fringe benefits and unfunded retiree health benefits, as a proportion of the annual budget
- The uncertain federal and state funding climate

These circumstances, the study's authors noted means that "annual rounds of budget retrenchment are inevitable."

WTA based its study on an exhaustive analysis of the district's 2004-2005 fiscal year. The main issues behind the challenges uncovered by the WTA then are present in the current MPS budget.

Revenue

MPS receives funding from three main sources: The federal government, the state, and city of Milwaukee property taxes.



The Federal Government

Funds allocated by the federal government are generally based on poverty and are channeled through the No Child Left Behind Act (NCLB) and the Individuals with Disabilities Education Act (IDEA).

The State Government

Generally, aid to schools across Wisconsin are based on a formula that seeks to equalize funding between districts with high property values and districts with low property values. To accomplish this, the Department of Public Instruction calculates property wealth per student by dividing the total property value in a district by the number of students. Aid is allocated based on this ratio. The aim of

the formula is to ensure that districts with low property values such as MPS receive more state aid while districts with higher property values receive less aid. The state also provides aid for categorical spending, which is chiefly reserved for special education programming.

Local Property Taxes

The district, through its elected school board, has the authority to raise the property tax levy. In recent years, pressures on the MPS budget from different quarters have resulted in relatively large increases, relative to inflation and increases approved by the city and the county. The board raised the property tax levy by 9% in 2007 and 14.6% in 2008. By comparison, the levy in Milwaukee County was raised 3.1% and 3.6% during the same period and the levy for the City of Milwaukee was increased by 3.6% and 4.2%.

Revenue Challenges

As noted in the WTA report, the uncertain economic climate, rising health care costs, and other factors make the outlook for school funding precarious. School districts around the state, not just MPS, are grappling with these issues, and many districts have begun to call for changes in the state aid formulas, in addition to examining ways to reduce expenses.

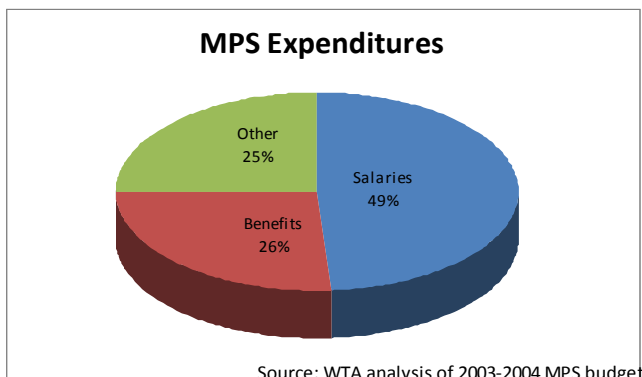
WTA researchers also noted the "lost market share" MPS faces from private and parochial schools as well as the presence of the Milwaukee Parental Choice Program. Funding for schools in the Choice program originates from the same state pool that funds MPS. This arrangement has led to what is referred to as the "funding flaw."

In essence, the funding flaw upsets the calculation of the state's aid formula. As students leave MPS for schools in the Choice program, they are no longer counted in the enrolled student population of the district. As a result, the calculated property value per student increases, implying that Milwaukee is a wealthier district. The effect is to decrease the per-student funding MPS receives.

MPS can raise the tax levy to account for rising expenses and decreased state aid. However, doing so year after year can become economically unbearable and politically untenable.

Expenses

Like the budgets of most large organizations, staff compensation is the district's major expenditure. In its analysis, WTA noted that 75% of MPS education spending is for wages and benefits.



Wages

The WTA report found that the average compensation of an MPS teacher was \$56,568, which was below the state's median compensation of \$63,362. However, teacher retention and attrition rates play a role in this comparison. The report noted that MPS teachers generally possessed fewer years of experience than their peers around the state did. MPS teachers averaged 10 years of experience compared to the statewide median of just over 15.

Benefits

Although wages in total are lower for MPS teachers versus teachers in other districts, fringe benefits tend to be more generous. In October 2008, the MPS board received an analysis from a private consulting firm that compared the benefits package at MPS with benefits offered to employees at other school districts, other units of government, and businesses. Among the findings:

- Fringe benefit costs as a percentage of payroll (61.5% in 2008) is higher than that of comparable employers
- For most employees, MPS does not require an employee premium contribution for medical benefits, and only recently adopted a plan that included small co-pays for services and prescriptions.
- Lifetime maximum benefits for the medical plan is higher than the maximum offered at comparable employers
- Employee contributions for dental plans are significantly lower than contributions at comparable employers

- The qualifying age for retiree healthcare is 55, which, combined with benefits levels and premiums that are the same for active employees, offers highly subsidized and generous benefit levels

Retiree Health Benefits

As noted above, a significant issue facing MPS is the expense of retiree healthcare. Recent changes in how units of government disclose the long term liability of these benefits have highlighted the difficulty municipalities and school districts will have in meeting these obligations in the future.

According to a September 2008 report by the Wisconsin Policy Research Institute, MPS leads the way among public institutions in southeastern Wisconsin in terms of these liabilities, which are referred to as Other Postemployment Benefits (OPEB). The group reported that the MPS OPEB stood at \$2.2 billion.

Public institutions are not required to fund these liabilities in full each year; however not doing so can have deleterious effects on future budgets and credit ratings.

Summary

Recent public comments by district leadership and school board members have underscored the deep financial problems facing MPS. Superintendent William Andrekopoulos has stated that the current state funding system is broken, and that MPS cannot continue without significant changes to the formula. School board

members made a similar statement when they voted in September 2008 to investigate the steps necessary to dissolve the district.

If there is any good news in the budget challenges facing MPS, it is that stakeholders, elected officials, and numerous organizations have recognized the struggles the district is having in meeting its obligations to students, their families, and taxpayers.

Sources

“Challenges Today and Tomorrow: An Analysis of the Present and Future Financial Condition of MPS.” Wisconsin Taxpayers Alliance. March 2007.

“Results of Fringe Benefits Survey.” The Segal Group, Inc. October 2008.

“Government Retiree Health Benefits: Wisconsin’s Ticking Time Bomb.” Wisconsin Policy Research Institute. September 2008.

“Coalition seeks change in state’s school funding system.” *SouthMilwaukee Now*. November 12, 2008.

“Vote pushes taxes to the limit for Milwaukee Public Schools.” *Journal Sentinel*. October 22, 2008.

About Advocates for Student Achievement:

Formed in 2007, ASA’s mission is to increase academic achievement for every student in Milwaukee by recruiting and electing school board members who have the talent, focus and experience required to make its urban schools among the best in the nation. For more information, visit: www.asamke.org.