

FISCAL WOES OF THE MILWAUKEE PUBLIC SCHOOLS

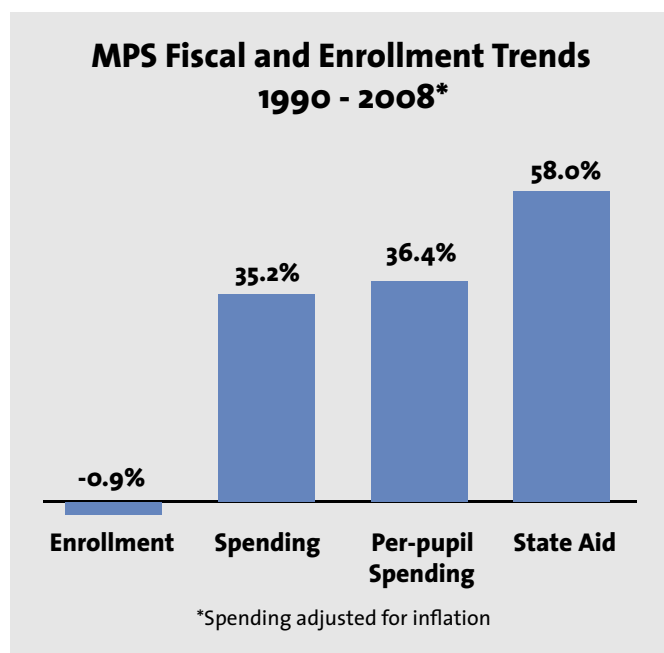
WHAT REALLY AILS MPS?

Milwaukee Public Schools (MPS) officials have offered a grim assessment of the district's financial condition, even suggesting that the district's survival is in question.

MPS is, indeed, in perilous fiscal shape. To find solutions, it is important to understand actual causes.

The MPS Superintendent points to Madison, saying that the state finance system is "broken."¹ And, according to the MPS Board President, the funding mechanism for the Milwaukee Parental Choice Program (MPCP) also hurts the district.²

In fact, neither the school aid formula nor MPCP financing explains the district's dire fiscal situation. The real problems lie elsewhere. For example, as MPS itself explained earlier in this decade, mushrooming fringe benefit costs approved by the district are the main reason for a pattern of annual cuts in education programming. A new report from an independent consultant confirms the basic conclusion that MPS reached years ago, namely, the district's fringe benefits are "considerably more generous" than in the private sector and among other units of government.³ As a consequence, cuts in classroom programs have occurred despite a substantial increase in per pupil spending, something verified more than a year ago in an independent report from the Wisconsin Taxpayers Alliance (WTA).⁴



Is the state unfair to MPS?

After adjustments for inflation, state aid to MPS has grown dramatically.⁵ In real dollars, state aid to MPS in 2007-08 was \$258 million higher than in 1989-90. That represents a 58 per cent increase. The state paid 59 per cent of total MPS spending in 2007-08, up from 50 per cent in 1989-90.

During that same period, per pupil spending grew 36 per cent — again, in real dollars. Per pupil spending in 2007-2008 was \$13,014, an increase of \$3,459 since 1989-90.

The dramatic growth in state aid flatly contradicts claims that the state has shortchanged MPS. Yet, despite the substantial rise in state support and per pupil spending, MPS continues to cut programs. Why? Where has the new money gone?

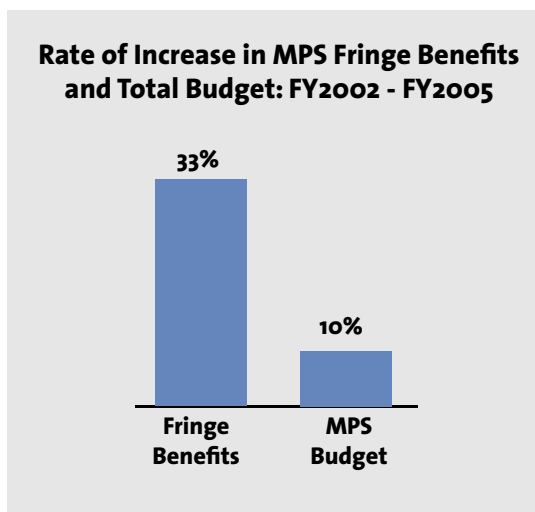
The role of fringe benefits

Generous fringe benefit packages and rising health care costs have consumed a disproportionate share of new MPS revenue. These benefits were negotiated and approved by MPS officials, not the state.

To appreciate the impact of fringe benefit costs, consider that in 2004-05 the overall MPS budget grew \$27.3 million while fringe benefit costs grew \$45.8 million. In other words, every new dollar of spending plus an additional \$18 million were needed to pay for higher fringe benefit costs.⁶

BAY VIEW HIGH SCHOOL (\$530,000)	KOSCIUSKO MIDDLE SCHOOL (\$220,000)	ALCOTT ELEMENTARY SCHOOL (\$84,000)
Seven teachers OR 21 general education assistants OR 235% of the school's supply budget.	One librarian, one guidance counselor, and one psychologist OR nearly twice the school's discretionary budget for purchased services.	Almost four times Alcott's entire supply budget OR enough to restore prior reductions in physical education, music, library, and other salaries.

MPS quantified what could have been purchased in 2004-05 had fringe benefits remained stable.⁷ The table to the left provides examples of the impact at three different schools.



The 2004-05 budget was not a one-year aberration. As the chart to the left shows, from 2001-02 to 2004-05 MPS fringe benefit costs grew at a rate three times faster than the overall budget.⁸

The independent WTA report issued last year found that fringe benefit costs rose 83 per cent between 1995 and 2004, faster than any other MPS spending category. Looking to the future, the WTA concluded: “[I]n the coming years, the expenditure demands MPS faces, particularly in the fringe benefit area, will grow faster than available revenues. As a result, annual rounds of budget retrenchment are inevitable.”⁹

The ticking time bomb

The immediate impact of burgeoning fringe benefits pales when compared to budget-busting costs that MPS will face in future years. In just one category — health care for retirees — MPS has a \$2.2 billion unfunded liability.¹⁰ This is nearly twice the size of the MPS annual budget. MPS uses a “pay-as-you-go” system that annually provides only a quarter of the cost needed to address its unfunded liability. As a result, that liability will grow to \$4.9 billion in less than a decade.

Impact of school choice on MPS finances

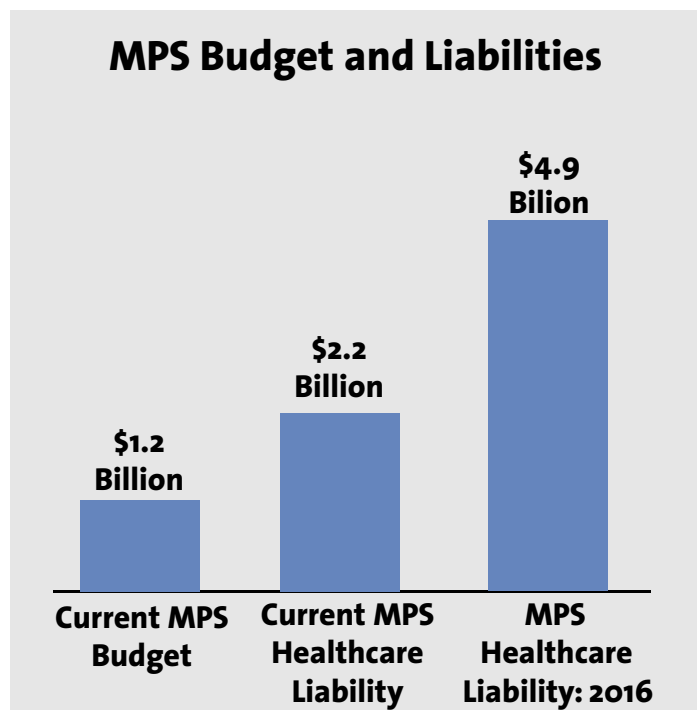
The MPCP has had virtually no impact on MPS spending levels.

Between 1989-90 (the MPCP was enacted in 1990) and 2007-08, real MPS spending grew from \$879.6 million to \$1.2 billion. For all but one of those years, MPS spent the maximum allowed by state law, meaning that **no spending reductions** occurred because of the MPCP. In 2007-08, MPS spent about \$10.8 million less than the allowable maximum, an amount that arguably is attributable to the MPCP. Yet that is less than one per cent of the 2007-08 budget. Further, even that small amount largely was offset by the three-year rolling enrollment average used in calculating aid and spending authority.¹¹

Milwaukee property taxpayers do pay more per pupil (\$2,535 in 2007-08) for a student in the MPCP than for a student in MPS (\$2,235). However, this has no impact on MPS revenue or spending levels and thus no relationship to the district’s dire fiscal condition. During the last session of the Wisconsin Legislature, Milwaukee Mayor Tom Barrett and Milwaukee State Rep. Jason Fields offered a bipartisan plan to address that “funding flaw.” MPS chose not to support that plan.¹² Its complaints now ring hollow.

Conclusion

In relation both to enrollment and inflation, MPS spending has grown substantially since 1989-90. Aid to MPS generated by the state funding formula has grown even faster. Finally, in terms of MPS expenditure levels, the MPCP has virtually no impact.



Despite the substantial growth in resources available to MPS, it has repeatedly faced the need to limit or reduce funding for educational programs. A major contributing factor has been decisions by a series of elected school boards to approve large increases in pension and health care benefits.

These decisions — not the state funding formula or school choice — explain why, in the words of MPS Director Terry Falk, “Structurally, financially, we’re in an untenable situation.”¹³

Any solution must acknowledge and address fringe benefit costs and unfunded liabilities. Without action in those areas, changes in governance or district size only will transfer fiscal problems from the current board and administration to others.

Footnotes

¹ Alan J. Borsuk, “MPS to explore dissolving district — Money pressure brings board’s surprising vote,” *The Milwaukee Journal Sentinel*, September 18, 2008.

² Press release, Peter Blewett, September 26, 2008.

³ Alan J. Borsuk, “MPS offers uniquely generous fringe benefits, report says,” *The Milwaukee Journal Sentinel*, October 13, 2008.

⁴ “Challenges Today and Tomorrow,” *The Wisconsin Taxpayers Alliance*, March 2007, prepared at the request of the Metropolitan Milwaukee Association of Commerce.

⁵ Using official MPS sources, School Choice Wisconsin has monitored fiscal trends in the district since the year prior to the 1990-91 launch of the MPCP. See “Milwaukee Public Schools Fiscal and Enrollment Trends - 1990-2008,” available at www.SchoolChoiceWI.org.

⁶ “MPS Employee Benefit Costs,” a 21-page presentation used by MPS officials in 2005 to illustrate the relationship between fringe benefit costs and educational program cuts. Fringe benefits include health and dental insurance, pension plans, social security, and life insurance.

⁷ “MPS Employee Benefit Costs.” MPS based its estimates of higher costs on the growth in the fringe benefit rate — from 55 per cent of salary to 63 per cent of salary — in 2004-05.

⁸ “MPS Employee Benefit Costs.”

⁹ “Challenges Today and Tomorrow.”

¹⁰ Christian Schneider, “Government Retiree Health Benefits: Wisconsin’s Ticking Time Bomb,” *Wisconsin Policy Research Institute*, September 25, 2008.

¹¹ See “The Fiscal Impact of School Choice on MPS,” available at www.SchoolChoiceWI.org.

¹² Lisa Kaiser, “Behind the MPS Budget Battle,” *The Shepherd Express*, November 8, 2007.

¹³ “MPS to explore dissolving district — Money pressure brings board’s surprising vote.”