

BUSINESS SERVICES DEPARTMENT

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To: Members of the Board of Education

From: Daniel A. Nerad, Superintendent

Date: July 9, 2009

Subject: Impact of the State of Wisconsin Budget on Madison Schools

Background:

Every two years the State of Wisconsin goes through a process to finalize a two year budget for all governmental programs. This biennial budget process is the source of the State's commitment to public education here in Wisconsin, historically driven by legislative guidance to adhere to two-thirds funding. The two-thirds funding has changed over recent years, but for the most part the State of Wisconsin was able to continue annual increases to public education in an attempt to keep up with rising costs within this sector.

The biennial budget was signed into law near the end of June by Governor Jim Doyle after various proposals and with relatively few vetoes. This budget has numerous provisions that will effect the future of public education that include:

- Repeal of the Qualified Economic Offer (QEO)
- Decrease in funding for public education by the state of approximately \$147 million
- Decrease in the per pupil increase associated with revenue limits

Each of these provisions can and will have a very unique impact on MMSD over the years to come. The repeal of the QEO will potentially impact future settlements for salaries and benefits. The decrease in funding for public education by the state is projected to create the need for a tax increase conversation in order to sustain current programs. The decrease in the revenue limit formula will cause MMSD to face more reductions in programs and services for the next two years at a minimum.

Program Costs/Funding/Consultation Service Employment Contract

Projected reduction in revenue of \$2,810,851 and decrease in state aid of \$9.2 million.

Attachments

Revenue Impact of the 2009-11 biennial budget
Possible Options to address issues

Recommendation(s)

There is no formal recommendation at this point in time. Administration plans to bring recommendations to the board in August that will most likely incorporate some or all of the proposed options.

Revenue Limits Impact

	<u>Projected 2009-10</u>	<u>State Budget 2009-10</u>
Revenue Limit	\$275	\$200
Enrollment (proj.)	<u>24,766</u>	<u>24,766</u>
Revenue Limit Inc.	<u>\$6,810,650</u>	<u>\$4,953,200</u>
Difference between Projected and State Budget column		\$1,857,450

Categorical Aid Impact

	<u>Projected 2009-10</u>	<u>State Budget 2009-10</u>
Special Education	\$17,612,354	\$17,172,046
SAGE	\$6,503,739	\$6,235,062
Pupil Transportation	\$138,000	\$138,000
Bilingual/Bicultural	\$1,646,305	\$1,411,253
State Tuition Payments	\$320,349	\$309,136
AODA	\$45,513	\$45,513
School Lunch	\$86,700	\$85,989
School Breakfast	<u>\$101,850</u>	<u>\$104,410</u>
	<u>\$26,454,810</u>	<u>\$25,501,409</u>
Difference between Projected and State Budget column		\$953,401

Total Projected Revenue Limit Decrease & Total Projected Categorical Aid Decrease

Total possible reduction	\$2,810,851
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These are all estimates based upon the 2009-11 State budget and the best known information at this time

Options to Address Budget Issues:

Below you will find solutions the district is analyzing and researching to address the two major issues relative to the 2009-10 budget. With each proposed solution that Administration is researching, we intend to delineate what we are currently seeing as the positive and negative impacts of each solution. We will continue to research and analyze each solution with a goal of presenting a formal recommendation to the Board of Education in August.

A. Budget reduction due to decrease in revenues (lower revenue limit increase).

Projected budget gap in 2009-10 is: \$2,810,851

1. Utilize existing district Fund Balance for one year.

At the end of the 2007-08 school year, MMSD increased the districts fund balance by \$4,259,332. This increase moved the fund balance for MMSD from \$20,663,467 to \$24,922,799.

Positive Impacts:

- Allows the district to plan during the 2009-10 school year for how to address the \$2.8 million reduction in revenue the following year.

Negative Impacts:

- Utilizing one time funds for ongoing expenditures.
- The school district has used this strategy quite a bit over the past 10 years, depleting this balance to the current levels.
- Utilizing fund balance could produce a negative reflection on the District's Bond Rating which could affect yearly short-term borrowing interest rates.

2. Utilize the potential trend of additions to fund balance to address ongoing expenditures needs.

At the end of the 2007-08 school year, MMSD increased the districts fund balance by \$4,259,332. Preliminary estimates for the 2008-09 school year are showing a possible positive addition to fund balance. Administration will do an analysis of this addition to find out if there is a trend of under-expending the districts budget and why. This analysis should help us to identify if there is opportunity to tighten specific areas of the 2009-10 budget to address the projected shortfall in revenue of \$2.8 million and/or consider utilizing additional funds available at the end of the 2008-09 school year

Positive Impacts:

- Sustainable funding source that will address the projected “gap” permanently
- Creates a permanent use for existing resources if available

Negative Impacts:

- Utilizing one time funds for ongoing expenditures.
- The school district has used this strategy quite a bit over the past 10 years, depleting this balance to the current levels.

3. Utilize IDEA ARRA Funds to exercise our Maintenance of Effort (MOE) to cover this shortfall.

The Madison Metropolitan School District received \$6,199,552 through the American Recovery and Reinvestment Act for IDEA. With this large one time increase, MMSD has the opportunity to exercise what is called a Maintenance of Effort clause with the federal guidelines. This guideline basically says that MMSD or any other school district can free up half of the increase the district receives in that given year for activities outside the normal scope of IDEA. In the case of Madison we potentially could free up approximately \$3 million from these stimulus funds for ESEA activities outside of the IDEA guidelines.

Positive Impacts:

- Would allow the school district to cover the shortfall of \$2.8 million for the 2009-10 school year.
- Would allow the district to utilize these resources for purposes outside of IDEA guidelines.

Negative Impacts:

- one time* /
- This solution is not sustainable as it would be use of one time funds.
 - The rules surrounding this provision could potentially cause MMSD to lose a projected \$800,000 to \$1.0 million of special education funding in 2010-11 creating further reductions necessary.
 - Would limit the amount of additional focus on special education activities.

4. Utilize a Combination of MOE, 2009-10 Budget Reductions and 2008-09 projected Fund Balance

Administration will work to create a plan to address a combination of an MOE reduction, 2009-10 budget reductions and the utilization of fund balance. The ARRA proposal will be created with an effort to produce a reduction in the districts

MOE without creating a future negative affect. Upon the finalization of the fiscal numbers for 2008-09 and estimated fund balance there will be analysis of surplus producing areas for the last three years to determine where budget reductions may be created. The budget gap would be covered by utilizing the accumulated fund balance from 2007-08 and 2008-09 .

Positive Impacts:

- Would allow the school district to cover the shortfall of \$2.8 million for the 2009-10 school year without impacting one major department.
- Would allow the district to utilize ARRA resources for purposes outside of IDEA guidelines.

Negative Impacts:

- Utilizing one time funds for ongoing expenditures.
- The school district has used this strategy quite a bit over the past 10 years, depleting this balance to the current levels.
- Utilizing fund balance or eliminating a 2009-10 surplus could produce a negative reflection on the District's Bond Rating which could affect yearly short-term borrowing interest rates.
- A reduction in the District's MOE could cause MMSD to lose special education funding 2010-11

B. Decrease in State Aid due to finalize state budget

Projected loss in state aid in 2009-10 is: \$9,231,118

1. Creating a partnership with the community by not levying our total allowable amount under the revenue limit formula.

Every school district in the State of Wisconsin goes through an annual calculation using the revenue limit formula. This calculation is meant to show the maximum allowable revenue a specific school district can receive through a combination of property taxes and state aids. Due to the unfortunate circumstance of a projected decrease in state aids of \$9.2, the conversation unfortunately has to go to if the Board of Education would consider increasing property taxes to fill this loss in state funding.

We are researching an idea that would allow the Board of Education to be fiscally responsible, while minimizing the amount of property tax levy that would be necessary. The idea is to decrease the levy for the 2009-10 school year by an amount that would make sense based upon more final calculations. We would do this, in tandem with making a conscious decision that for one year the district would utilize that same amount that was not levied out of fund balance to cover expenditures already committed for next year. Then leading into the 2010-11 school year, the district would be allowed under the revenue limit formula to carry over this amount of levy authority that was not used for this current fiscal year (the amount we would under levy by). This would allow the board to levy this amount during the 2010-11 school year to replace the reduction in fund balance we would consciously decide to exercise in the 2009-10 school year.

Positive Impacts:

- The district would mitigate the tax increase for the 2009-10 school year by an agreed upon amount.
- The district wouldn't be forced to reduce any programs or services due to this decision

Negative Impacts:

- The district would either levy this amount in the 2010-11 school year or lose the ability to do so (in essence it would force the district to cut that amount in 2010-11 if the authority wasn't used).
- Possible further negative impact on the amount of state aid to be received in 2010-11.