

## Service Associate Q&A

### Addressing Difficult School Funding Issues

**Q.** *What are some of the main challenges right now in school funding that you see?*

**A.** The most significant challenge is balancing expenditures relative to revenues. A total of 152 school districts saw a decrease in total Fund 10 (general fund) revenue between the 2009-10 and 2014-15 school years. Over that same period, another 123 districts had less than 5 percent increases. Most districts with above-average revenue growth had resident student enrollment growth, positive net open enrollment growth, and/or passed operational referenda. When revenues are flat or declining, any expenditure increases can cause difficulty. Between 2009-10 and 2014-15, significant expenditure increases included a 13.25 percent hike in transportation costs, an 11.10 percent increase in Fund 10 transfers to Fund 27 (special education fund), and a 15.50 percent bump in property and liability insurances.

**Q.** *Have you seen any significant changes or shifts in district expenditures?*

**A.** Legislative changes have definitely changed the way school districts manage their expenditures. For example, prior to revenue limits, it was common for school districts to use short-term (3-5 year notes) debt to fund some of its facility expenditures. This short-term debt helped districts match the year to year fluctuations in facility needs and avoid those corresponding fluctuations in the operating budget. Once revenue limits were put

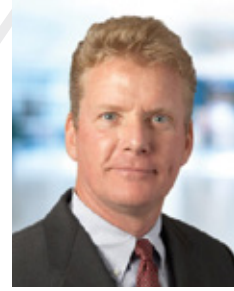
into place, the short-term debt was moved to Fund 39 (referendum approved debt service fund); once the debt was paid in full, the associated levy authority was lost. Current legislation such as Act 10 has also had a significant impact on district expenditure budgets, specifically how districts manage employee compensation. Health and dental expenditures have decreased from 2011-12 through 2014-15 with 234 districts experiencing decreases. Salary expenditures have increased over that same period.

**Q.** *How have school districts handled funding challenges?*

**A.** Districts have increased the use of referenda to help address operational and maintenance needs. The operational referenda have been used for program needs as well as maintenance-related expenditures. The use of debt, as it was before revenue limits, is still the primary source of funding to address larger scale facility needs. Some districts have used fund balance to cover deficits; when used for ongoing expenditures, however, this is not a sustainable solution. Districts have also cut programs or increased class sizes to reduce expenditures, but with open enrollment and the expanding voucher program, districts need to understand the full impact of these types of changes.

**Q.** *What are some strategies school districts can use/are using to maintain healthy finances?*

**A.** This may seem like a simple



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answer, but operating expenditures cannot exceed revenues. Districts can decrease expenditures, increase revenue or a combination of the two. Establishing budget priorities should be part of this process and create the basis for future expenditure needs. Using a multi-year budgeting tool is not only viewed favorably by the bond credit rating agencies, it also allows districts to run scenarios to better understand budgeting options. Similarly, establishing sound policies and practices allows districts to maintain good fiscal health. Lastly, utilizing long-term funding options for facility needs should be part of the budget planning. Funds 41 and 46 (capitol project funds) can be used as part of the long-term facility planning. ■

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