



## Average school district will face rocky road

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What's going to happen over the next several years to the fairly normal school district in Wisconsin? I've seen a serious and well-based forecast, and it's not pretty if things go forward by the current rules.

You're right if you think the changes wrought by Gov. Scott Walker and Republicans in the Legislature sharply trimmed how much schools have available to spend per student but also reduced how much they have to spend on employee benefits - and that, for the 2011-'12 school year, it was a more or less balanced deal from the standpoint of most school districts.

But let's look down the road for Fairly Normal, which is what Bob Borch calls the middle-of-the-pack, composite school district he uses in making forecasts of what lies ahead financially.

Borch is an old hand at school finances. He worked for several school districts in the Milwaukee area, including 23 years as business manager of Elmbrook Schools. Now he works for PMA Financial as a senior financial adviser. The firm does financial consulting work with, among other clients, 140 school districts in Wisconsin. Borch is apolitical, as is PMA. But Borch knows school spending inside and out and, as Jeff Carew, senior vice president of PMA put it, "Data is data. It doesn't lie."

A year ago, Borch's analysis showed that things were going to be OK in Fairly Normal in the first year of the new financial realities. State aid went down, but employees paid a bigger share of health and retirement costs. The bottom line actually improved from what it would have been under the old system of increasing state aid and generous employee benefits.

In the second year, things weren't so good, and Fairly Normal had to dip into its "fund balance," which is pretty much like its long-term savings account. Years Three and Four get worse. By Year Five, which would be 2015-'16, Fairly Normal is running a big deficit, has used up all its savings and can't pay all its bills. I'm not exactly sure what we would call that when it happens to a unit of government in Wisconsin, but in other circumstances, I believe it's called bankruptcy.

Why did this happen? This is how I'd put it: Let's say your boss cut your pay. But he also helped you cover some of your expenses. For a year, it worked out to be pretty much a wash, and things were generally OK.

The next year, the boss gave you a little bit more pay, but your expenses started going up again. Things were not quite so OK. Same thing in the third year and fourth year. By the fifth year, it was ugly. You'd used up all your savings and you still couldn't pay your bills.

That's what is developing for Fairly Normal. As things stand, revenue stays pretty flat. But even without teachers unions having a say, expenses start climbing again. There are some modest raises, increases in health costs, costs for retirees and so on. Borch factors into his model that a lot of senior teachers retire due to changes in benefits and are replaced by younger teachers with lower salaries. (This is happening, in general.)

It's now a year since Borch first showed what he forecast for Fairly Normal. Things are developing pretty much as he envisioned, except a little less cheery on the bottom line. His forecasts now extend out an additional year and are looking like big financial problems loom for Fairly Normal.

## **Unless . . .**

Unless - unless what?

Borch created scenarios for a bunch of "unlesses." No raises based on seniority. No raises based on a teacher getting more advanced education (this is already happening). More staff cuts. Property tax increases, probably involving approval of a spending referendum in Fairly Normal's community. You could add to the list continued reductions in employee benefits and other cost-cutting measures, perhaps including more privatizing of services or cutting programs.

In some of the scenarios Borch developed, major cuts in teaching staff are required to balance the budget without raising property taxes.

One big "unless" is this: Unless the Legislature puts more money in the school aid pot and allows districts to spend more per student when it creates the state budget for 2013-'15.

In the great furor of 2011 over public employee unions and overall state spending, one step got relatively little attention. For more than a decade, the state had allowed school revenue (state aid and property taxes combined) to go up at least \$200 per student per year. Suddenly, the cap on revenue was reduced by \$550. It was a high-impact shift, tightening the spending in every school district in Wisconsin. This year, school districts are generally gaining back \$50 of that, but that doesn't go too far in easing the longer-term forecast.

Ten months from now, when the state budget is scheduled to be approved, where will the revenue cap be set and how much will the state put up for meeting it? This will be a core issue for legislators, with the impact to be felt in every public school in the state. The debate will be heated and highly partisan, I assume, even if serious, levelheaded discussion would be a far better strategy.

You also can count on school boards and superintendents around the state to be sweating out some big issues each step along the road. They have a lot more power than they had before the Walker changes. The union contracts that shaped much of the life of schools have been replaced by handbooks created by management.

Huge changes are looming that go beyond dollars alone. Changes in standards and accountability. Changes in the way teachers are trained, evaluated, assigned, promoted, even fired. Some advocate big changes in the ways schools are structured and classrooms are run, making more use of technology.

Things are not going to be fairly normal in Fairly Normal, if by that you think of just carrying on as things have been. Some new normals lie ahead. There are even reasons to think they might be fairly constructive.

But only if we're good at picking a path through the "unlesses."

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