

Item 11 A: Business Services Report: Current Budget Update-How did we get here?

AASD Board of Education

Mon, Apr 14, 2025 5:30PM

Kay Eggert (Board President) 1:40:49

Moving to reports. First business services, current budget update. Mr. Hartjes.

Greg Hartjes (Superintendent - AASD) 1:41:17

So, over the last several meetings, we have been discussing our current budget deficit, including discussing where we are this year, projecting out next year and the following year. And tonight, and perhaps over the next several meetings, if needed, Holly Burr and I will share with you and then lead a discussion around how did we get here? So, the last several meetings we were talking about where we are financially. Now we're going to talk about how did we get here.

Current Financial Outlook

How did we get here?

Board of Education
April 14, 2025

Greg Hartjes (Superintendent - AASD) 1:41:48

And so, I want to start by talking about the revenue limit. And some of this is going to be review, and but we think it's good to just bring it back together around this discussion. And so, the revenue limit that went into place in 1993, for the first several years after it went into place (and it was set by the legislature at state level), the concerns were that the revenue limit was not the same based on per pupil revenue for all districts across the state. So, districts like Appleton and several others like us were concerned about the fact that as your population of students changes, the revenue limit formula does not change with that population.

Greg Hartjes (Superintendent - AASD) 1:42:32

So, it was set in 1993 based on the needs of our students at that time, and it hasn't changed. And so, for example, Madison receives several thousand more dollars per pupil. Milwaukee does, several schools or school districts around Madison. In fact, Sun Prairie has a revenue limit that's \$2,000 per pupil higher than ours because of where they were set in 1993. If we had that dollar amount, we would have an additional \$28 million this year in revenue limit authority. And so that was the concern for many years, and it still is a concern.

Greg Hartjes (Superintendent - AASD) 1:43:08

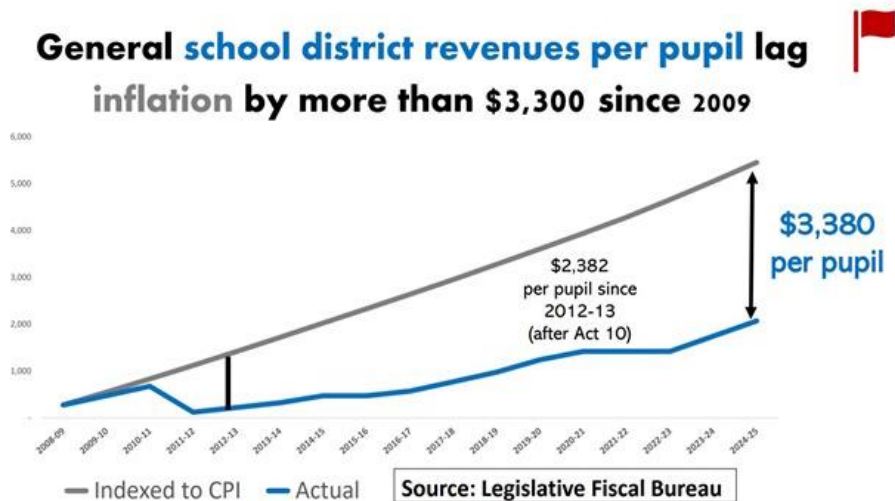
However, what has become more of a concern over the last 10 to 15 years is how the CPI has not—I should say how the revenue limit has not kept pace with CPI. And so, from 1993 until 2009 the revenue limit was indexed to the CPI, which meant that, conceivably, our revenue should keep pace with our expenses based on inflation. But since that time, in 2009, that has not happened. And initially over the course of the time when Act 10 came out. And so, you can see at the graph here, if you look at 2013, in that year, the revenue limit, the per pupil amount went down. So instead of going up with the CPI, it actually went down by over \$600 per pupil.

Greg Hartjes (Superintendent - AASD) 1:44:02

From there, it has stayed on a trajectory that has not kept pace with the CPI to the point where now, if it had, all districts in the state would have \$3,380 per pupil more for revenue limit authority. For us in Appleton, that

would be approximately \$47 million. So, think about what we would do with 47 more million dollars. And when you look at all the districts across the state that are struggling financially—I'll go back—you can see why it is. It's just very simple. Our revenue limit authority, which means it caps our revenue, doesn't keep up with inflation the CPI. So, it's simple math that it's not going to work for us, and as time goes on, it continues to impact us.

Revenue Limit Imposed by the State



Greg Hartjes (Superintendent - AASD) 1:44:54

So, this difference of \$3,380, if we multiply that by our membership numbers, \$47 million. That \$47 million would be split between equalization aid from the state, which we're aided at about 57%, and property taxes. And so, if we look at what would be our share of it, 43%, would mean 20 million more additional dollars than the tax levy.

Greg Hartjes (Superintendent - AASD) 1:45:20

So, when the state legislature passed the revenue limits, it was intended to hold property taxes down, and it has done that over the past 32 years. Unfortunately, it has significantly impacted public education because our revenue has been held to a lower number than what we need to function. The \$20 million, if that were to be added to our tax levy, that would be an increase of \$1.61 on our tax rate or \$161 on \$100,000 of property. Yet that would be lower than what property taxes would be in Appleton if they had stayed indexed to inflation over the last even just 15 years. And so, it's not an unreasonable number to think that we should have 20 million more dollars from our local taxpayers as [??] of \$47 million had the CPI and revenue limits been indexed.

$$\text{Difference} = \$3,380 \times 14,011 = \$47 \text{ million}$$

$$43\% \text{ of } \$47 \text{ million} = \$20 \text{ million additional tax levy}$$

The additional \$20 million would add \$1.61 to our tax rate, or \$161 on \$100,000 of property

Greg Hartjes (Superintendent - AASD) 1:46:17

Next, Holly is going to share a little bit about how enrollment impacts revenue limits and our revenue in general.

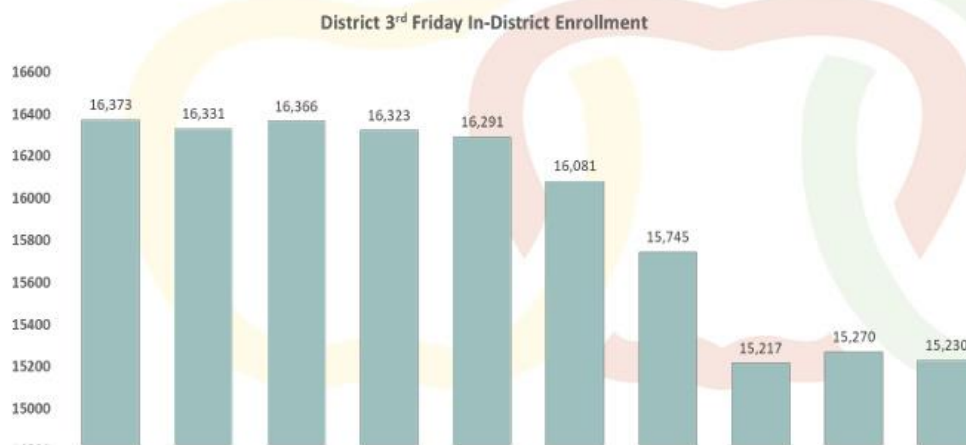
Holly Burr (AASD Executive Director Of Finance) 1:46:26

So here we have the last 10 years, and we pulled these on purpose. Back in 2015 was kind of a high point in enrollment for the district, but it's also just a good benchmark. You can see what's been happening here, fairly level for a number of years, and then 2021—the years didn't show up on there. Sorry about that.

Holly Burr (AASD Executive Director Of Finance) 1:46:56

20 Covid. So, the two years with COVID we took we took significant drops in enrollment, and then since then, we've been leveling off again. So, the 15 to 30 was our 23-24 year. The difference in the 10 years 2015 to 2024, 16,373 students versus 15,230 students. That's a change of 1,143 students in 10 years. At our current rate—Greg just talked about our current revenue limit. The current revenue limit that most districts is using is \$11,325. Ours is slightly higher because of our 2022 referendum. But using the \$11,325 which is the current limit, if we had those students back, that would be \$12,944,000. So here again, this is an impact in our budget, especially in the last five years, that has taken a significant—our budget has taken a significant hit.

Enrollment Impact



Holly Burr (AASD Executive Director Of Finance) 1:48:14

Now we will also talk as annually about hold harmless and some things that the state has put in place to ease that a little bit, but remembering that's just a one year, and those hold harmless limits and things and the declining enrollment are one year. Then the next year you take the hit for the declining enrollment. So, when you have declining enrollment for a number of years—five years we're looking at here—we start to feel it, and we're feeling it now. The nearly \$13 million would balance our budget.

Greg Hartjes (Superintendent - AASD) 1:49:00

So, I want to talk a little bit more specifically about the past four years and the revenue limit, CPI, and salaries. So, salaries is our biggest budget outlet, roughly \$100 million, and so when you look at the revenue limit that was set as part of the '21 to '23 state budget, it had a 0% increase in revenue. So, a zero increase. In that first

year, '21/'22, when the CPI was 1.23%, we could manage that; however, we gave salary increases at 3.30% and there's a lot of reasons for that. Simply put, we have to be able to compete with other local districts for talent—right? We have to be able to do that. And—but what happened there is it created a structural deficit. When our revenue did not go up from the state and then our salary increases—which again, is \$100 million approximately in that year—it created a \$3.3 million structural deficit. Now that carries over. Those are salaries, and so we don't decrease salaries. They continue to go up.

Revenue Limit - CPI - Salaries

	2021-2022	2022-2023	2023-2024	2024-2025	Average
Revenue Increase	0%	0%	3.90%	2.75%	1.66%
CPI	1.23%	4.70%	8.00%	4.12%	4.51%
Salary Increase	3.30%	4.70%	6.47%	3.11%	4.31%
*Difference	\$3.3 million	\$4.7 million	\$2.6 million	\$400,000	\$2.64 million
**Cumulative		\$8.0 million	\$10.6 million	\$11.0 million	



Greg Hartjes (Superintendent - AASD) 1:50:09

Next year, again, a zero increase in revenue and the CPI was 4.7 so we gave a salary increase of 4.7. Now that number is a significant difference—right? So that was \$4.7 million in extra expenses that we didn't have the revenue for. Now, we knew we had fund balance to manage that, but we also knew that at some point we would have to rectify that. So now, between those two years to create an \$8 million structural deficit based on salaries. And in a little bit Holly will talk about our other expenses that are impacted by inflation.

Greg Hartjes (Superintendent - AASD) 1:50:49

So, then we move into the '23-'25 year, bi annual budget, and that was better to us. So, it was 3.90 in the first year. Unfortunately, the CPI was 8% that year, and we went back and forth—right?—trying to decide what can we afford? What can we do for compensation increases, knowing that there were districts in the state and even locally that gave the full 8%. The 8% is what an association can legally ask for on the base wage. And so, there were districts that gave 8%. We settled on 6.47, but again, the difference between that 3.9 in the revenue increase and then our salary increases was \$2.6 million, again, structurally built into salaries moving forward. So now we are at \$10.6 million in our structural deficit.

Greg Hartjes (Superintendent - AASD) 1:51:39

This year, a little bit better, because the inflation rate—right?—CPI went down. And so, this year, 2.75 was our revenue increase. CPI 4.12. We gave compensation increases of 3.11%, difference of only \$400,000, but now we

have an \$11 million structural deficit created over four years based on compensation. And again, we're competing not only with other districts, we also, over these four years, have been competing with private sector, especially in '21-'22 and '22-'23 when we were losing staff members to private sector, knowing that it's very, very difficult to work in schools, right? They're all very challenging jobs, and when an individual can make more in a position that is not as challenging, we were losing employees. A lot of public school districts were. So it created a structural deficit.

Greg Hartjes (Superintendent - AASD) 1:52:34

Now, when the state put revenue limits in place in 1993, the legislature said, if your community feels you need more funding, then you need to go to referendum and ask them for more funding. Now we've done that in 1998, 2005, 2014, in 2022, but in each of those four referendums, we had specific asks as part of that. So, we didn't, we didn't ask for those dollars just to support our ongoing costs; we wanted to add something. So, in 2022 we reduced class size in kindergarten, first, and second grade, and we added STEM positions so that we could have STEM classes. Overwhelmingly, our community supported us with almost 70% approval on the referendum. But what we're faced with now is looking at the possibility would we want to go to refer—would we need to go to referendum just to cover our annual increases?

Greg Hartjes (Superintendent - AASD) 1:53:28

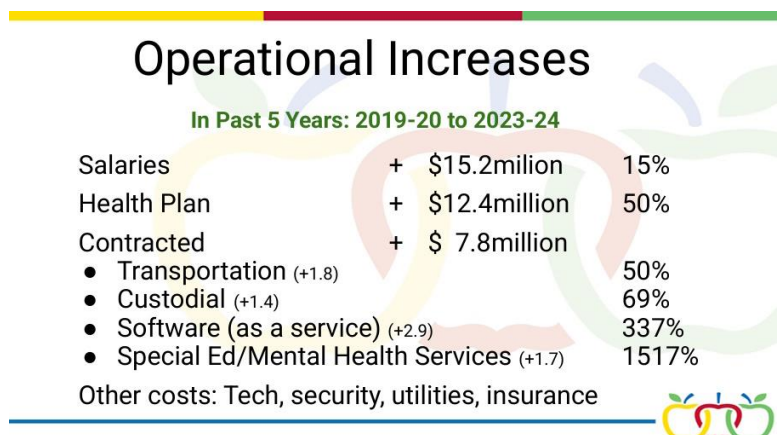
So, Holly's going to talk a little bit about some of those other operational increases over the past five years.

Holly Burr (AASD Executive Director Of Finance) 1:53:35

So, over the same five years as our—Greg, you know, Greg just covered, the enrollment has been declining. We've been getting—we got increase in state funding two years, but not the other two years. We just talked about the CPI increases. These are other items that don't necessarily follow CPI that we have seen significant increases in. So, these are cumulative amounts. So, bearing in mind that these percentages are over a five-year time period. Salaries, we kind of just looked at three or four years that Greg showed you, \$15.2 million, and that's an additional every single year now. So, this is the amount that we're carrying over, you know, this year compared to five years ago.

Holly Burr (AASD Executive Director Of Finance) 1:54:31

Health plan \$12.4 million. And then contracted services, so this is things like transportation, our custodial contract. Software as a Service has gone, you can see, up significantly there, an additional \$2.9 million versus five years ago. Now, some of that is just a change in operation. So, I know a meeting or two ago we, we talked a little about little bit about curriculum changes that so much of the textbooks and things are online now versus a, you know, paper textbook. So, some of that is simply driven by that is the way of the world now, but a lot of it is also driven by they're just increasing their prices.



Holly Burr (AASD Executive Director Of Finance) 1:55:20

And then Special Ed mental health services, the dollar amount isn't as significant as the percentage. We're just using a lot of outside services that we did not use five years ago.

Holly Burr (AASD Executive Director Of Finance) 1:55:32

And other costs, I didn't put dollars or percentages to those these, but these are also increases that are usually be more than the, let's say, average 3%—tech security, utilities, insurance, property liability, workers comp insurance, things like that.

Holly Burr (AASD Executive Director Of Finance) 1:55:54

So, all of this, again, is just kind of working against public school districts. So, in the same five years, revenues have increased by \$22.2 million, and expenses have increased by \$35.4 million.

Greg Hartjes (Superintendent - AASD) 1:56:13

And I do want to add, we have decreased staffing. So as our enrollment has gone down, we don't need as many classroom teachers, though all of those positions that are based on a formula, we have reduced. So, it isn't as if we're keeping the same amount of staff that we had when we had 1,000 more students. We have reduced staffing there. Challenge with Public Schools is we have overhead—right?—and so if we lose 10 students at an elementary school, they aren't going to reduce the principal, the engineer, secretary, the school counselor. We have all of these ratios that we keep. You know what most districts are doing right now are thinking big—right? These are big challenges, and so talking about cutting staff, operational referendum, closing schools. Those are the ways that you can save the type of dollars that we are now faced with in terms of needing to save.

Holly Burr (AASD Executive Director Of Finance) 1:57:10

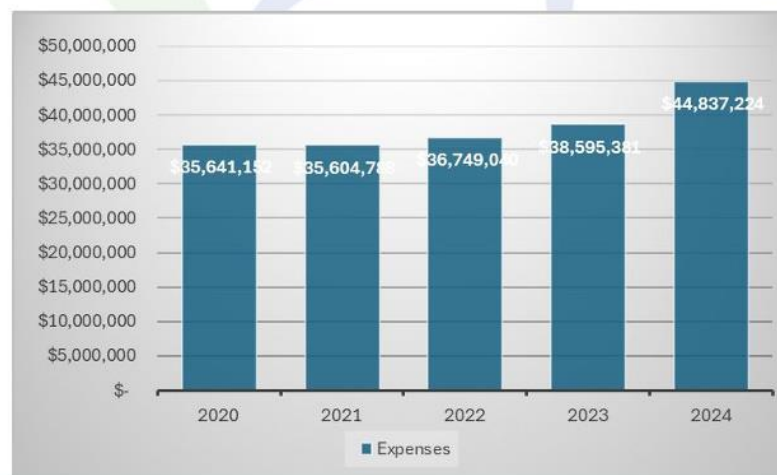
Well, and also on that note, there's not an economy a scale when it comes to staffing. You know, yes, we've gone down, you know, over 1100 students, but that's across the entire district. That's across 14 grade levels. So, you start dividing that out, it's 82 students. It's—just lost it—it's, you know, three students per grade level per school. You can't cut a teacher when with that. Now, so we do cut, but it is not in direct proportion to the funding that we're losing. Make sense?

Holly Burr (AASD Executive Director Of Finance) 1:57:51

And then I know we've talked about special education costs. This, again, is the same five years 2020 versus to 2024, and just increases in cost. Now this includes everything for special ed, including staffing, including their contracted services. And you can just kind of see here how that's gone up over the years. Our population fluctuates. It's

gone up a little bit over the years, but not significantly. This is mainly driven by just costs, inflation, CPI increases, and things like that. And then student needs will play into this as well. So, some of the

Special Education Costs



contracted services that we're hiring out for that we didn't have five years ago is sometimes based on student needs.

Greg Hartjes (Superintendent - AASD) 1:58:51

Our last slide here is there's also impact based on vouchers. And so, the reality for public schools is we've always have to take some dollars from students with less need to offset the cost of kids with more needs. That's always been the case. And where vouchers impacts this is that because private voucher schools don't accept students with high-cost needs, they only accept students with lower cost needs. We're losing—this year it's 857 students that are not high cost. We're losing those students that we used to be able to take some dollars from, not a lot, to offset the cost of other students. And this is what we spoke to with the Joint Finance Council is the fact that now more than ever the reimbursement on special ed is critical to us at 29% when by law, it's supposed to be 67%, and knowing that we are also losing the students that we've been able to move dollars over [...] students. It impacts us.

Voucher Impact

Year	Students
2015-2016	76
2016-2017	110
2017-2018	143
2018-2019	208
2019-2020	357
2020-2021	430
2021-2022	516
2022-2023	641
2023-2024	852
2024-2025	857

Greg Hartjes (Superintendent - AASD) 2:00:00

So, we wanted to share all of that with you as just kind of a background to how did we get here, but not just us—right? It's really every district in the state that is where we are. So, questions? Again, this is—there's no urgency on this as a discussion matter. We can discuss it tonight. Think about it. We can bring it back again. But really, this is kind of a second phase of this larger finance discussion. When we're ready, we'll want to start talking about, what will we do about it? But tonight is just to understand how did we get here.

Kris Sauter (Board Member) 2:00:42

Would it be possible at some point—not tonight, obviously—to get the cost for the transportation, custodial, software, and the special ed mental health services? I think just looking at the percentage, especially on the special ed mental health, [...] figured out properly. But just if we could get that total to be looking at it similar to salaries and health planning. I feel like we have that information readily available.

Holly Burr (AASD Executive Director Of Finance) 2:01:14

So, the other costs you're talking about?

Kris Sauter (Board Member) 2:01:15

The other costs.

Holly Burr (AASD Executive Director Of Finance) 2:01:16

Tech, security, utilities? Sure.

Kris Sauter (Board Member) 2:01:19

Thank you.

Kay Eggert (Board President) 2:01:30

So, we got here, and again just to reiterate, I mean, Appleton is not unique in these challenges, and across the state, we know that you have declining net birth rate and net movement into the state—migration, net migration—and school budgets don't shrink proportionately to as students are—with the declining enrollment in the students, as you said.

Jason Kolpack (Board Member) 2:02:12

Yeah, I was gonna say, I don't know if you have these numbers at your fingertips, but I know that it's been widely publicized the number of school districts that have had to go to referendum over the last year, two years, three years. Like, I know it's a significant number. I tried to find it a couple times, but I'm struggling finding that. But I think it's worth noting that, you know, hundreds of school districts in the last year, year, two years have had to go to a referendum to cover their costs, right?

Holly Burr (AASD Executive Director Of Finance) 2:02:44

Hundreds. And I don't have the exact number, but I will pull it for you. Record numbers in the last two to three years, and it seems like every other year is exceeding the new—this is the new record, this is—and net record number of districts and record number of dollar amounts. It's become the new norm. It's a it's a bad—it's a sad way to have to run a business.

Jason Kolpack (Board Member) 2:03:19

Yeah, I didn't want to kind of leave this go without, like, saying anything, because I think these are all numbers that we're all intimately familiar with. It's a really violent analogy, but it feels sometimes like we're being strangled to death and bled to death at the same time. And it's really frustrating. But I just thank you for bringing these numbers. Also, one other thing, there is a penalty allocated to districts who fail referendum as well, right? Can you talk about that?

Holly Burr (AASD Executive Director Of Finance) 2:03:53

There is, and so that is—it's in the this current year to try and take that away again. They've tried a couple different times. So basically, how it works is that if you fail an operating referendum, if the revenue limit goes up—well, and now it's going up automatically, the 325 per year, you are you don't get that. You get—have to stay at whatever reference revenue limit you were at. So yes, there is a penalty for not pass like passing that. They are trying to eliminate that, but right now it does—it is still on the books. And fortunately, unfortunately, there's only a handful of states right now that that that's impacting, however, as more and more go to referendum, it has the potential of really impacting a lot more.

Ed Ruffolo (Board Member) 2:04:55

So, Holly and Greg, and equalized value calculation, I know that's designed to districts that have higher property values to spread their cost, kind of help fund the smaller rural communities. So, when we look at our equalized value calculation, are we in net gain or net loss in that?

Holly Burr (AASD Executive Director Of Finance) 2:05:18

We are in net gain. Yeah. Our—like Greg said before, we're aided at about 57% which is middle, mid-range for the districts. There's some, and I don't want to quote it a name, because I don't want to say it incorrectly, but there are some big districts that are actually negative. So, yeah, it is does—that is how it was designed. It has good and bad points because of that.

Ed Ruffolo (Board Member) 2:05:54

As we begin to look at some of the potential building in the north side versus [...] coming. As they add more value, say, around Thrivent and some of the other areas that we've heard about, is that potential benefit to us as that value goes up?

Holly Burr (AASD Executive Director Of Finance) 2:06:14

It's a potential value in the fact that the more you can spread out the cost over higher equalized value, it will not drive the mill rate to go up. It actually drives it down. So, the Fox Valley area has been very fortunate in that we have a—we've enjoyed a steady increase in our equalized value for the last—I think only once in the last how many years, that it was zero or went negative. That's always a benefit. It keeps that mill rate fairly low. So, communities that don't see a lot of increase then also won't see a lot of increase in their taxes.

Ed Ruffolo (Board Member) 2:07:03

Certainly, the reverse is true. Districts don't shrink well, but they expand very well, and so as our—if that pushes up our population, then our revenue will start going faster than our cost, correct?

Holly Burr (AASD Executive Director Of Finance) 2:07:17

In theory.

Kris Sauter (Board Member) 2:07:24

Holly, just for those who might be listening, and I know we've shared this multiple times, but could you share the dollar impact for vouchers this year?

Holly Burr (AASD Executive Director Of Finance) 2:07:33

The dollar impact for vouchers this year was right around \$8 million.

Kris Sauter (Board Member) 2:07:40

Thank you.

Holly Burr (AASD Executive Director Of Finance) 2:07:41

And that's all programs.

Ed Ruffolo (Board Member) 2:07:45

I have one last question, always have to ask special education, particularly when we're mandated, legally, morally, and ethically to provide those services, what has the shortfall been the last three years?

Holly Burr (AASD Executive Director Of Finance) 2:08:01

See now you are going to put me on the spot. So, are you asking about the transfer amount?

Ed Ruffolo (Board Member) 2:08:11

Yes.

Holly Burr (AASD Executive Director Of Finance) 2:08:16

Ask another question in between.

Jason Kolpack (Board Member) 2:08:20

I can [...] one that I think, Greg, you can speak to this. One other thing that's not mentioned in here that I think might be worth mentioning is Appleton is one of the rare districts that has a net open enrollment into, is that correct? And we do see some amount of revenue increase based off of that, but not nearly enough to help us.

Greg Hartjes (Superintendent - AASD) 2:08:41

That's correct. So, our net difference is between 900 and 1000 students every year. It's the largest of the big districts in the state. There's a couple of districts that have virtual schools within their district that have a similar number, but, yes, and that dollar amount that we get is in the range of like, \$9,000 per student, and that comes with a student that open enrolls into your district.

Ed Ruffolo (Board Member) 2:09:09

Believe I saw a number, Holly, that the amount of federal aid that we get is right around 13 million. Does that sound right to you?

Holly Burr (AASD Executive Director Of Finance) 2:09:17

It was 14, just under 14 this year.

Ed Ruffolo (Board Member) 2:09:20

What are we spending on EL programs? Last time we looked, it was around 14 million as well.

Holly Burr (AASD Executive Director Of Finance) 2:09:28

And I don't have that. The special ed transfer, however, has been increasing. So, year ended '22 was 20.5 million. Year ended '23 was 22.5 million. Year ended '24 was 27.6 million.

Kay Eggert (Board President) 2:10:05

Okay, if there's nothing else on this topic, we know there will be again in the future. Ready to move on?