Toward a Stronger Milwaukee Public Schools

April 2009

Message from Governor Jim Doyle and Mayor Tom Barrett

The city of Milwaukee is the hub of Wisconsin's economy, offering economic and cultural amenities that only a large metropolitan area can support. Like cities throughout the Midwest, Milwaukee has been forever impacted by the changing and globalized economy. In the 21st century global economy, family-supporting jobs now require higher levels of education and skill than ever before. The economic future of Milwaukee, and future of the State of Wisconsin, hinges on the ability of Milwaukee's families, communities, and schools to prepare well educated, highly trained and skilled graduates for success in higher education, the workplace, and life.

The Milwaukee Public Schools system (MPS) provides an education to over 80,000 students, operates over 200 schools, and employs nearly 11,000 City residents as educators, administrators, and staff. As the largest school district in Wisconsin, the success of MPS is critically important to the futures of its students, their families, the City of Milwaukee, and is a cornerstone of economic development and vitality of the State of Wisconsin. Few, if any, other local public agencies in Wisconsin carry with them such significance in terms of direct impact to the local community and to the economic health of Wisconsin

Over the years, we have spent significant time in MPS, meeting with children, parents, educators and staff. There is no question that there are successful schools and many stories of accomplishment throughout the district. Again and again, we have been impressed by the potential and determination of MPS students, and the dedication of parents, educators, staff, and community volunteers who are working tirelessly to prepare Milwaukee's next generation for success.

While we recognize the successes, the unfortunate reality is that academic outcomes throughout MPS remain unacceptably low. Large achievement gaps persist, and are getting worse. At a time when our competitive global economy requires a highly skilled, trained, and literate workforce, more than 70% of MPS 10th graders are not proficient in mathematics, and more than 60% are not proficient in reading. While graduation rates have improved slightly over the past five years, graduation rates still lagged significantly behind the statewide average, and about 4 of every 5 graduates who went on to the University of Wisconsin-Milwaukee still required remedial courses.

At the same time that investments must be made to improve academic outcomes, the financial viability of MPS has been called into question by those charged with managing the system. In a dramatic move last fall, the Milwaukee Board of School Directors, acting as a Committee of the Whole, voted to explore dissolving the school district, arguing that the state's system for funding the district was broken and would lead to "ruination". Although the Board ultimately reversed course and decided against exploring dissolution of the district, the Board voted a few weeks later to increase the local school levy for MPS by a startling 15%. Board members and the Superintendent contended that the academic and financial circumstances of MPS warranted a property tax increase of this magnitude.

The Board's actions raised serious concerns among parents, local elected officials, business and community leaders, and the community at large about the stability of the district, as well as

the ability of MPS leadership to manage its finances and make appropriate investments to improve student learning. To address these issues, we joined together to seek an independent evaluation of MPS' finances and operations to better understand the financial state of the district and options available to address it. Several Milwaukee-area foundations and private donors partnered with us to provide financial support for the effort at no cost to state taxpayers. The report that follows summarizes the results of this review.

Our paramount concern is improving academic achievement in MPS. For purposes of this review, and based on the actions of the school board, we felt it was most important to first gain a thorough understanding of the foundation upon which MPS' educational efforts are built: the district's overall financial health. As a result, this review focused on assessing the district's financial position and cost drivers, as well as an analysis of how the district spends money on non-classroom operations like facilities, maintenance, transportation, food service, procurement and district administration. The review also includes an analysis of MPS' current performance management systems.

The review confirms what other recent studies have suggested and we and many others have long suspected: MPS has serious academic challenges at the same time it is facing a serious long-term financial problem. The review found that MPS' per-pupil spending is roughly in line with state and national averages; the district is not dramatically underfunded compared to its peers, nor is it dramatically overfunded. The main drivers of the district's financial pressures are its growing expenses, which are increasing at the same time that the MPS' own demographic projections suggest that student enrollments will continue to decline. At current rates, increasing expenses, including retiree health benefits, active employee benefits, salaries, supplies, and purchased services combined with declining enrollment, are projected to result in as much as a nearly $200 million annual budget gap by the 2012-2013 school year, before increases in school property taxes are taken into account. If nothing changes and MPS leadership continues business as usual, Milwaukee taxpayers can expect their school property taxes to increase by nearly 50%, while students and parents can expect substantial cuts to instruction at the same time. At a critical time when new investments must be made to substantially improve educational outcomes among Milwaukee's future workforce, this prospect is unacceptable.

The financial pressures of the district can, however, be overcome. Significant opportunities exist for MPS to do things differently, to become more efficient, and to find substantial savings in areas that will not negatively impact classroom instruction. The research that follows includes a set of detailed options for how the district could save as much as $100 million annually to address budget pressures or invest in educational improvements. While we do not believe that every option evaluated as part of the review is necessarily right for Milwaukee, the analysis is indicative of the kinds of changes that could be pursued to put the district on stronger financial footing. More importantly, the review underscores that options do exist to solve the district's financial issues if MPS leadership chose to pursue them.

Moreover, it is clear that improvements to current MPS management practices are needed for any district initiative to be successful. This review found that MPS does not have a performance-based culture, uses incomplete metrics and targets for performance, has poor data quality required to measure performance, and has limited or inconsistent focus on improving day-to-day operations. In short, MPS does not currently have the organizational structure or the performance management system needed to implement and sustain initiatives that would result in significant non-instructional savings. These findings are consistent with other reports and

efforts from organizations focused on the improving the district's academic performance, such as the Council of Great City Schools, the African American Education Council, and the "Working Together, Achieving More" Accountability and Support Group. Through these independent reviews, it is clear that MPS must make major changes to improve its performance management in order to create and sustain lasting improvements.

While reforms to MPS' non-instructional operations can relieve some of the long-term budget pressures, those reforms alone may not be enough to address MPS' entire projected shortfall, or to ensure that the district has sufficient resources to invest in instructional improvements. MPS will have to look for opportunities to improve efficiency and effectiveness of all of its $1.2 billion in spending, and aggressively pursue new revenue possibilities.

For our part, we continue to work together to find new ways to support MPS. In the last state budget, we worked together to increase funding for the SAGE small class size program, establish a new $10 million categorical aid program to increase MPS student achievement in mathematics, and create a new high poverty aid program that helped defray the cost of the Milwaukee Parental Choice Program (MPCP) to city taxpayers. In the 2009-11 budget, we are working to make further changes to the funding of the MPCP to make it more equitable for taxpayers.

Our commitment to MPS remains as strong as ever. For example, at the same time Mayor Barrett first called for an MPS review in August of 2008, he was working with local philanthropic interests to fund the "I Have a Dream" Scholarship Program at Clarke Street School, and directing funds to increase school security and student summer employment opportunities.

Governor Doyle has been working closely with Congress and the Obama Administration to craft the American Recovery and Reinvestment Act of 2009 (ARRA), which is providing fiscal stabilization funds to maintain funding for K-12 education that would otherwise have had to have been cut due to the economic recession. In addition, ARRA is providing school districts with unprecedented increases in federal funding for low-income and special needs children through federal Title I and IDEA programs. MPS is expected to receive over $100 million in new funds as a result of ARRA over the next two years. These new funds will provide an unparalleled opportunity to invest in reforms that improve student achievement, and may help to temporarily alleviate some of MPS' budget pressures. However, these funds are temporary and must be invested carefully and strategically. If careful planning and caution are not used when allocating these recovery funds, the district's financial shortfall will be much worse in two years when the funds are scheduled to expire.

In many respects, the coming months are critical to the future of MPS. Even in better financial times, MPS has struggled to fulfill its mandate of providing a quality education to the children of Milwaukee; financial challenges can only increase the difficulty of that task. MPS will begin receiving millions in temporary one-time recovery dollars, and the right investments must be made quickly to ensure the best use of those funds. At the same time, tough choices and decisive action must occur now to stabilize the district's finances for the long term and turn around the district's academic performance. The stakes are too high, and the consequences of failure are too bleak.

The report that follows adds to the body of knowledge upon which a community-wide dialogue about the future of MPS must be based. In the weeks and months ahead, working together with

all stakeholders, we are committed to establishing a clear path forward, not just to stabilize MPS' finances, but improve the district's management and, most importantly, make MPS one of the best urban school districts in the country. Our children, our City, and our State deserve nothing less.

Sincerely,

Jim Doyle
Governor
State of Wisconsin

Tom Barrett
Mayor
City of Milwaukee

Introduction

In fall 2008, Governor Jim Doyle and Mayor Tom Barrett, with financial support from several Milwaukee-area foundations and private donors, undertook an independent evaluation of the Milwaukee Public Schools' finances and operations to better understand the financial state of the district and the options available to address it. This report details the results of this review, which was conducted throughout the winter of 2008-09. Below, we acknowledge the many contributors to this effort, outline the methodology used by the project team, and provide an overview of how the report is organized.

ACKNOWLEDGEMENTS

This evaluation of the finances and operations of the Milwaukee Public Schools would not have been possible without the support, generosity, and commitment of many individuals and organizations.

First, several Milwaukee-area foundations and individual donors generously agreed to fund the independent evaluation, including the Helen Bader Foundation, the Northwestern Mutual Foundation, the Greater Milwaukee Foundation, the Richard and Ethel Herzfeld Foundation, Mary Burke, the Argosy Foundation, the Lynde and Harry Bradley Foundation, the Betty Brinn Foundation, the Joseph and Vera Zilber Foundation, the Weiss Foundation, the M&I Foundation, Linda Davis, and the Faye McBeath Foundation. This work could not have been done without their support.

Second, Mary Burke, president of the Board of Directors of the Boys and Girls Club of Dane County and former secretary of the Wisconsin Department of Commerce, generously volunteered her time and talents to manage this project on behalf of the governor and the mayor. Mary's leadership was critical to the success of this effort.

Third, McKinsey & Company, an international management consulting firm with deep global experience in the education sector, provided much of the fact base and the analysis upon which this report is based. Their expertise and thorough examination and analysis of district finances and operations contributed immensely to this effort.

Fourth, members of the MPS leadership and staff, including the superintendent, the chief financial officer, and many others, provided invaluable time, resources, and data to the project team. The results of the review were reviewed with the superintendent, CFO, and other MPS officials to ensure accuracy. The work substantially benefited from their assistance, cooperation, and partnership.

Fifth, staff from the Department of Public Instruction (DPI) provided valuable data, analysis, and feedback that informed this work and, in particular, the financial analysis. The DPI's assistance contributed greatly to this effort.

Finally, many individuals, organizations, school board members, other elected officials, non-profit and community groups, and other associations were interviewed by the project team throughout this process and informed the work of the report. The information provided by these stakeholders was invaluable, and the following report is far richer as a result.

METHODOLOGY

To ensure a balanced understanding of the challenges and opportunities facing MPS, the research team undertook a wide array of activities over the past several months. In addition to interviewing dozens of stakeholders, including school board members, labor leaders, business leaders, local community and nonprofit organization leaders, the team reviewed an extensive set of written reports published in recent years detailing the financial situation and educational performance of MPS.

In developing its findings and options, the team performed many quantitative and qualitative analyses, including the following:

Direct observations and analyses

- Analyzed MPS' budget to identify historical trends and drivers, with assistance from DPI and MPS staff
- Shadowed 25 maintenance and administrative staff through 15 different schools to identify efficiency improvement opportunities
- Interviewed more than 40 personnel (in finance, purchasing, transportation, food services, facilities and maintenance) to collect data, share analyses, examine options, and assess the performance culture
- Analyzed price variations between current MPS benefit plans for active and retired employees
- Collaborated with the City Assessor's Office to estimate the value of 24 unused facilities owned by MPS
- Analyzed electronic purchasing data and weeks of paper receipts.

Scenario modeling

- Developed a rough 5-year financial projection for MPS, with technical assistance from MPS and DPI staff
- Developed alternative staffing models for maintenance, administration, and food service based on pilot data, variability in costs, and direct observation
- Modeled savings for various transportation initiatives using detailed MPS and county bus routes, student data, and GIS mapping software
- Modeled scenarios to achieve savings from consolidating underutilized facilities.

Benchmarking

- Benchmarked several areas of MPS' budget and expenditures against other school districts, both within Wisconsin and beyond
- To the extent possible, compared MPS' academic performance with other Wisconsin and Midwestern districts
- Compared county transit discounts to national benchmarks
- Worked with MPS Purchasing to compare MPS prices for purchased items with external and internal benchmarks
- Compared MPS food purchases with lower-cost alternatives
- Working with city and state offices, compared the cost of MPS benefits packages, eligibility requirements, and costs to city, state, and national HMO and PPO benchmarks
- Benchmarked MPS' current performance management system against the characteristics of high-performing systems and developed options for sustained improvements.

HOW THIS REPORT IS ORGANIZED

The executive summary provides a high-level overview of the findings, which are then detailed in three chapters and an appendix:

Chapter 1 describes the current academic and financial situation facing MPS, including a brief and high-level assessment of academic performance, an overview of the district's budget, an assessment of major cost and revenue drivers, and 5-year financial projections and scenarios. It also describes the broad options available to address MPS' financial strain.

Chapter 2 describes the detailed findings and specific opportunities to reduce expenditures and increase efficiencies in non-instructional operations. This chapter looks at six areas:

- Purchases of supplies and textbooks
- Food service
- Transportation
- Administration (both school building and central office)
- Employee benefits
- Maintenance and facilities.

Chapter 3 proposes a potential action plan for MPS to organize and capture savings in non-instructional operations. It also describes how MPS' performance management system needs to change in order to achieve and sustain these savings.

The appendix includes additional detailed information that supports the analyses in the main body of the report.

The options outlined in this report are not intended as recommendations, but rather to provide a common fact base for decision making by state and local officials. Stakeholders must determine which options, if any, to pursue, based on a number of constraints and challenges, not the least of which are local economic conditions. Similarly, this report does not attempt to address all issues in a comprehensive manner; it should be considered one of many resources for advancing the dialogue about how to strengthen MPS' financial position.

It should also be noted that these findings are based on the best-available data. Data limitations at MPS were at times significant; the report highlights areas where data quality or availability was especially poor.

Finally, due to timing and other considerations, the research team did not review MPS' academic strategy or instructional operations. However, the team's observations while conducting its work in MPS school buildings suggest a strong need for this kind of diagnostic. A comprehensive school systems diagnostic that prioritizes improvements to raise student outcomes is, therefore, one of the options presented in Chapter 3.

Toward a Stronger Milwaukee Public Schools

EXECUTIVE SUMMARY

The Milwaukee Public School District faces substantial academic and financial challenges. Unless significant reforms are made soon, MPS will be unable to balance its budget without relying on large property tax increases and classroom cuts. The district's tenuous financial situation will further jeopardize the education of a generation of students already well behind their state and national peers.

The academic challenges facing the district cannot be understated. With the primary exception of increased proficiency in 8th grade math and science, student performance has not improved and, in many cases, has worsened over the past 5 years. Reading and math scores in 4th and 10th grade have gone down, and the gaps between MPS performance and the state average have increased. MPS' student achievement trails the performance of its peers across the state and the nation.

At a time when new strategies and investments are needed to improve student performance, MPS' financial situation is increasingly precarious. Over the past 5 years, the MPS budget has been balanced, and per-pupil expenditures have remained in line with state and national benchmarks – despite increasing expenses and enrollment declines of nearly 10 percent. To make ends meet, MPS has relied, in part, on a significant reduction in its workforce – 17 percent since the 2003-04 school year.

However, these trends are not sustainable. Over the next 5 years, the combination of escalating expenses (estimated at $110-160 million) and continued enrollment declines (projected to continue at about 2 percent a year, leading to a potential loss of tens of millions in state general equalization aid) will result in a serious financial shortfall that could reach almost $200 million. Increases in federal funding and state categorical aid may offset some – but not all – of this shortfall.

If unaddressed, this growing financial strain will force MPS to continue increasing its property tax levy to the maximum level possible, while, at the same time, making significant cuts to instruction. To prevent this scenario, action must be taken now to reduce non-instructional expenditures and strengthen performance management.

SUMMARY OF KEY FINDINGS

The project team identified several key findings for state and local policymakers to consider when moving forward:

- **MPS' per-pupil spending is roughly in line with state and national averages.** The district is not dramatically underfunded compared to its peers, as some would argue, nor is it dramatically overfunded, as other recent reports have claimed. In addition, MPS is roughly in line with national averages in how it allocates its funds: 58 percent to instruction (classroom-

related activities), 26 percent to non-instructional spending (transportation, facilities, food service, etc.), and 16 percent to instructional support services (guidance counselors, library/media specialists, nurses, and other pupil services)

- **MPS' budget pressures are driven primarily by increasing expenses and declining enrollment**. Over the past five years, MPS enrollment has declined by a startling 10 percent, and enrollments are projected to continue to drop at only slightly lower rates in the coming years. The Milwaukee Parental Choice Program has clearly contributed to this decline. Over the next 5 years, declining enrollment and increasing benefits and salaries, along with other rising expenses, will exert the most financial pressure on the district.

- **Over the next 5 years, the budget gap could approach $200 million**. As a result, failure to change the way the district does business would likely lead to sizable tax increases and cuts in instructional programs at the same time.

- **MPS' financial challenges can be overcome.** Changes in non-instructional operations offer a foundation for stabilizing finances. The project team identified opportunities in purchasing, food service, transportation, administration, benefits, and maintenance and facilities that could reduce costs by as much as $100 million annually.

- **Robust performance management is essential for driving and sustaining meaningful changes in operations.** MPS does not currently have the structure or performance management systems in place to implement and sustain initiatives that would result in significant non-instructional savings. Substantial reforms in these areas are needed for MPS to be successful.

- **Changes in how MPS spends its non-instructional dollars could strengthen its ability to invest in academic improvements as well.** MPS has seen only limited improvement in student performance in a few areas and significantly lags state and national averages. To dramatically bolster student achievement, MPS will need to pursue new instructional strategies, which will likely require not only a reallocation of current spending but also significant new resources.

POTENTIAL OPTIONS TO ADDRESS MPS' FINANCIAL CHALLENGES

Of the options available to address MPS' financial challenges and looming budget gap, improvements to the district's non-instructional operations may have the greatest short-term impact in securing the district's financial future.

Within non-instructional operations, the project team identified opportunities for MPS to save $58-103 million in annually. This amounts to roughly 15-27 percent of the total $380 million in non-instructional spending examined. Through a dedicated effort and proper management, most of these savings could be achieved in next 2-3 years.

The majority of the savings identified by the project team could be captured through five initiatives:

- ***Purchasing transformation ($10-15 million)***
  Purchasing in categories such as general supplies, food supplies, IT equipment, and textbooks could be optimized through focused, short-term, data-driven efforts. These efforts could include consolidation of spending, reduction of stock-keeping units (SKUs), and improved management of the central purchasing function. For example, one component of this initiative could focus on increasing use of MPS' primary office supply contract and negotiating better terms.

- ***Lean operations and efficiency ($11-16 million)***
  A lean operations and efficiency initiative could include identifying and rolling out best practices throughout MPS, and optimizing staffing levels and models in administration, food service, and maintenance and facilities. For instance, this might include full implementation of a pre-pack kitchen model to reduce costs and improve productivity.

- ***Facilities optimization ($6-12 million)***
  A facilities optimization initiative would include selling or consolidating selected schools and other buildings to improve utilization. Any such moves would need to be managed with consideration of parent preferences and the academic outcomes of various schools.

- ***Transportation optimization ($7-14 million)***
  Transportation optimization could include the establishment of transportation regions, improved negotiation with the county transportation authority, better utilization of buses, and vendor consolidation/negotiation of more favorable terms.

- ***Benefit program redesign ($23-43 million)***
  A benefit program redesign initiative could involve negotiating with employee groups to maintain employee satisfaction with benefits while reducing costs. Using tools from consumer research, this effort could involve developing a detailed understanding of the preferences among various employee segments as well as the costs of each benefit option and the design of benefits packages around those preferences. Improved vendor negotiation could also lead to savings.

These initiatives (and the underlying sub-initiatives) are *options* available to policymakers, and are not recommended actions. Many considerations, including local economic conditions, would have to be considered prior to implementing these initiatives.

In addition, other state and local policy options could impact district finances and help address MPS' financial challenges. For example:

- **The state could change the Milwaukee Parental Choice Program funding approach.** Under scenarios developed by the project team, several policy options could provide the district with an additional $5-48 million in state aid. This option would not increase the district's overall spending level, but would reduce the local property tax burden.

- **Local leaders could elect to increase property taxes.** Based on current law and trends, MPS will receive an estimated additional $50-60 million in additional revenue limit authority over the next 5 years. Combined with decreasing state aid due to declining enrollment, these revenue limit increases would allow MPS to increase property taxes by $100-120 million over

the next 5 years, if the district chooses to tax to the maximum extent allowed under law. This would equate to a nearly 50 percent increase to the current school property tax levy.

- **The district could review instructional operations to identify whether more efficient or effective spending practices could be implemented.** Such a review, which was beyond the scope of this study, could yield sizable savings and opportunities for reinvestment in academic reforms.

POTENTIAL ACTION PLAN

Local and state policymakers must determine which of the above options can best bring financial stability to the district. To capture and sustain savings, consideration should be given to launching an operations transformation program and implementing a robust performance management program. In addition, policymakers should consider conducting a thorough diagnostic of the district's academic program.

Launch operations transformation program

To improve the efficiency and effectiveness of the district's non-instructional operations, an operations transformation program to take advantage of some or all the opportunities identified by the project team could be established. A dedicated, short-term effort led by a new and empowered program management office could be implemented to begin making changes and accruing savings immediately.

If properly implemented, the identified $58-103 million in annual savings could be achieved over the next 2-3 years.

Implement robust performance management system

As part of this study, the team conducted a performance management diagnostic to assess MPS' performance management processes and culture against best practices in public- and private-sector organizations. That diagnostic revealed that MPS lacks the skills and tools needed to successfully manage for performance.

For example, MPS:

- does not have a performance-based culture, which will be required to change behaviors
- uses incomplete performance metrics and targets, without which it is difficult (if not impossible) to evaluate success or identify necessary changes
- relies on poor-quality data to measure progress against performance goals
- maintains a limited or inconsistent focus on improving day-to-day operations.

MPS appears capable of developing initiatives, but it currently lacks the management systems and processes needed to successfully implement and manage the initiatives after they are launched. In order to capture and sustain savings in the non-instructional area, and to set the stage for improvements throughout the district, MPS must have a robust performance management system.

Conduct academic diagnostic

While achieving financial sustainability is of critical importance, it is the means to an end: freeing up resources to help improve academic outcomes.

While this study did not focus on instructional operations, policymakers should consider **launching a school system diagnostic to identify and prioritize instructional initiatives geared to boosting student achievement**. This work should focus on the most critical factors impacting student outcomes and benchmark MPS' performance against national and global best practices. Many stakeholders have already put significant effort into developing the MPS "Working Together, Achieving More" strategic plan, which could provide a natural starting point for this initiative. This new diagnostic should also draw on the recent review of the district's academic program by the Council of Great City Schools, as well as on reports and analyses from other stakeholders, including the Greater Milwaukee Committee's Accountability and Support Group and the African American Education Council.

CHAPTER 1

The Current Situation

This chapter provides an overview of the academic and financial challenges facing the Milwaukee Public Schools, likely budget scenarios over the next 5 years, and broad options for closing the gap.

To provide context for detailed discussions of the district's financial health, the chapter opens with a snapshot of MPS' academic performance compared with state and national benchmarks. To free up funds needed to close its worrisome academic achievement gaps, MPS must first get its financial house in order. The remainder of the chapter therefore focuses on MPS' financial challenges. After breaking down the budget and looking at state and national benchmarks, the report analyzes the major drivers of revenues, expenses, and liabilities; provide 5-year projections and three possible scenarios; and describe the broad options open to MPS and the State of Wisconsin to close the looming budget gap.

ACADEMIC PERFORMANCE

While MPS has seen some improvement in academic results in recent years, Milwaukee students lag their peers other Wisconsin districts, even when comparing similar demographic groups.

Over the past 5 years, MPS has seen limited improvement in performance in three areas (see Figure A.0 in the appendix). First, the percentage of 8th grade students attaining proficient scores in science and math on the Wisconsin Knowledge Concepts Examination (WKCE) has risen from 29 to 40 percent and from 29 to 38 percent, respectively. Second, the ACT participation rate has increased from 40 to 43 percent. Third, the graduation rate has inched up, from 67 percent in fiscal year 2004 to 69 percent in FY07.

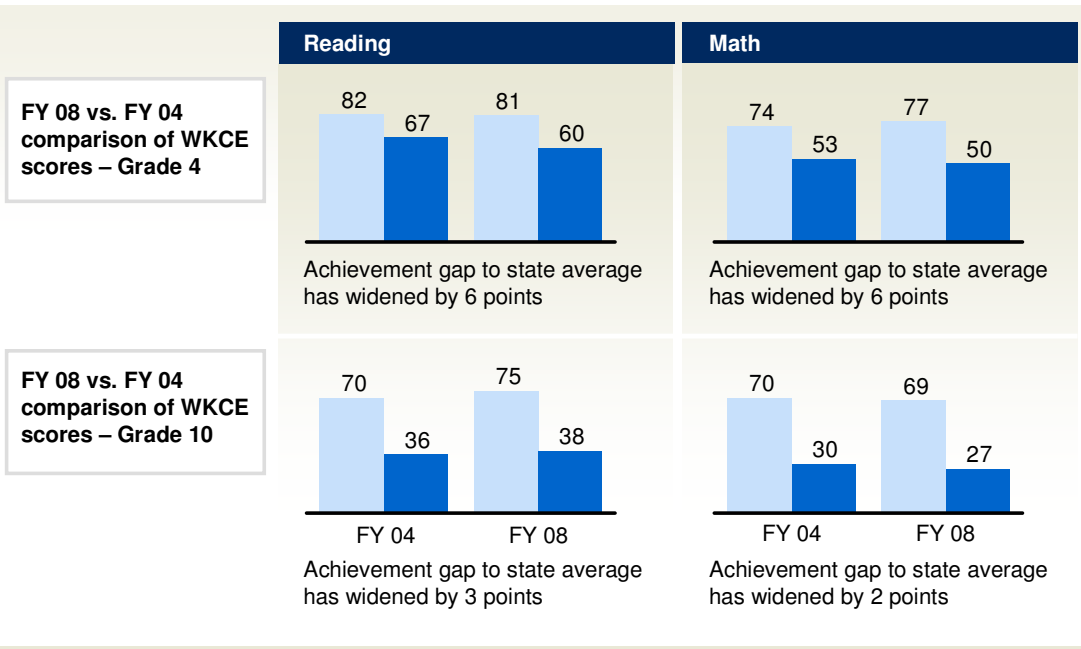
Despite these modest improvements, overall achievement throughout MPS remains low and lags state averages across all grade levels. Large achievement gaps persist, both in the

aggregate and among different demographic groups. Figure 1.1 shows that the achievement gaps between MPS and the state average in 4th and 10th grade reading and math WKCE scores have widened over the past 5 years. In 10th grade, only 27 percent of students are proficient in math and 38 percent in reading.

Figure 1.1

Performance on the WKCE

Percent of students at proficient level



Source: MPS; DPI

These gaps are apparent across demographic groups, as well. As illustrated in Figure 1.2, MPS 10th graders significantly trailed the state average across all groups in WKCE reading and mathematics scores in FY08. Some of the largest achievement gaps are among special education students, English language learners, and students eligible for free or reduced-price lunch.

It is also important to consider MPS' academic performance in a regional and national context. However, it is difficult to compare achievement results between and among individual districts in different states, since there is no nationwide test taken by all students in all states. Each state administers its own tests, and each sets its own level of proficiency. Therefore, state standardized test results, which are often used to compare districts within a given state (including in this report), cannot be used to directly compare districts in different states.

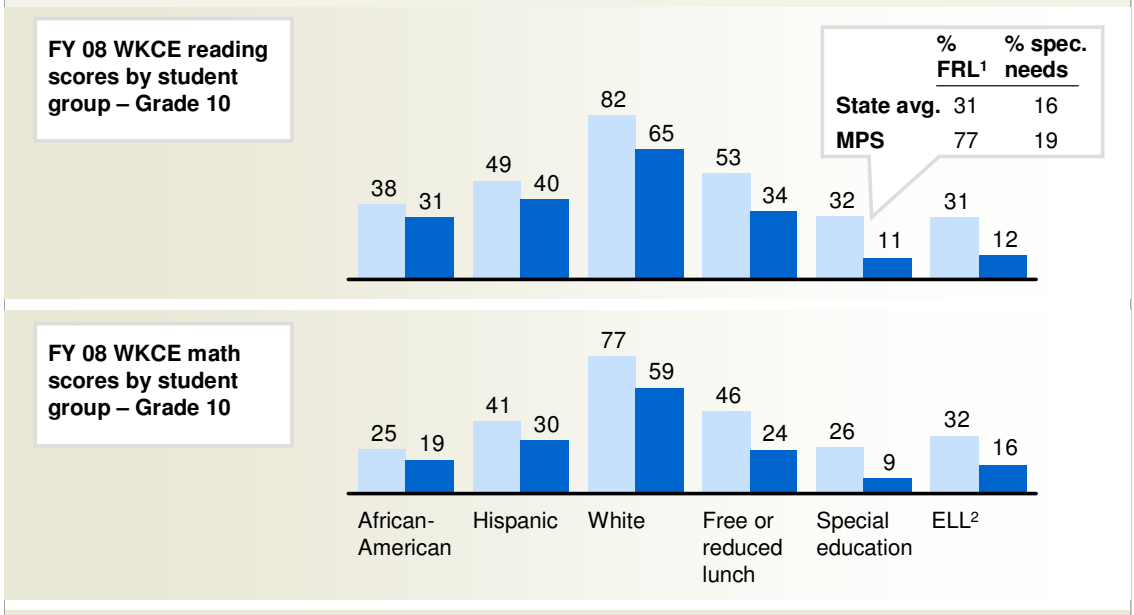
Still, to get a general idea of where MPS stands relative to other Midwest urban districts, we can compare the proficiency gap between MPS and the state of Wisconsin to proficiency gaps for other urban districts to other states. Given the challenges outlined above and the differences in demographic composition of the host states, this comparison of the MPS/Wisconsin achievement gap to similar gaps between urban Midwestern districts and their state-wide averages can only be indicative of a potential difference.

Using this approach, Figure 1.3 demonstrates that MPS has a larger district/state achievement gap than Detroit, Chicago, Cleveland, and Minneapolis. Unlike other districts, which typically show smaller achievement gaps in higher grades, MPS' gap is larger in these grades.[1]

Figure 1.2

Performance on the WKCE

Percent of student at proficient level by student type



1 Free or reduced lunch
2 English language learner
Source: MPS; DPI

A recent independent study comparing the relative academic achievement gap between 37 major cities and the relevant state averages underscores these findings. Of the 37 cities examined, Milwaukee had the largest gap (-3.7 standard deviations below the state average), larger than Chicago (-1.3), Minneapolis (-1.8), and Detroit (-2.5).[2] Again, while such comparisons across states pose numerous challenges, the gap is undeniably large.

To improve student performance and reduce these achievement gaps, MPS will likely need to develop, implement, and fund major new instructional programs and initiatives. However, as the next section examines in detail, MPS is unlikely to have much financial flexibility in the near future.

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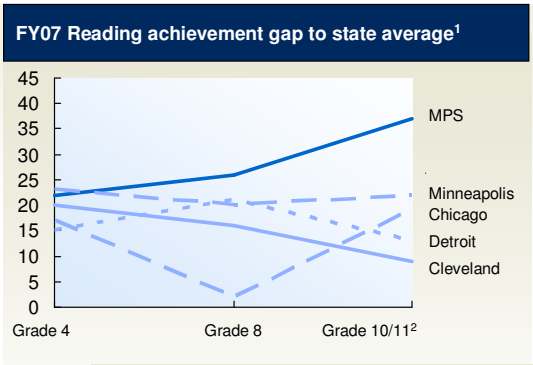
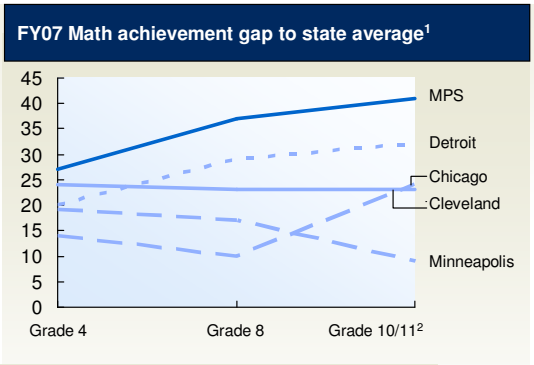
1 The differences among these districts could be explained by differences in the level at which the state proficiency bar is set, as well as by other factors, and should not be taken as definitive. If a relatively low percentage of students are proficient statewide, as in Minnesota and Michigan, there is less opportunity for a "gap" to develop. As noted earlier, a full academic review was not within the scope of this study.

2 2008 Brown Center Report on American Education: "How Well Are American Students Learning?" Brookings Institution, Washington, D.C.

Figure 1.3

MPS achievement gap relative to other districts





	FY 06 enrollment[3] *Thousands*	FY 06 percent poverty[3]	FY 06 percent special needs[3]	FY 05 graduation rate[4] *Percent*
MPS	**95.0**	**77**	**19**	**47**
Chicago[5]	421.0	74	13	51
Detroit	129.1	75	15	43
Cleveland	58.8	82	19	41
Minneapolis	38.5	67	15	58

1 Achievement gap benchmark data collected from SchoolDataDirect.org; MPS FY 07-08 Report Card; Chicago Public Schools website
2 Detroit achievement for high school proficiency, Chicago – reading and math for grade 11, Minneapolis – math for grade 11
3 Demographic data taken from NCES CCD FY 06 database
4 Data collected from Broad Foundation 2002-05 graduation rate study; uses Manhattan Institute Method to calculate graduation rate
5 Chicago Public School data collected from CPS Web site for Grades 4 and 8 and from SchoolDataDirect for Grade 11 (Grade 10 data not available)
Source: NCES; SchoolDataDirect.org; Broad Foundation

FINANCIAL CHALLENGES

While MPS' budget is in line with that of peer districts, the district faces significant financial challenges over the next 5 years. In particular, MPS' costs are projected to increase by $110-160 million, driven primarily by health benefits for active employees and retirees. In addition, with continuing declines in enrollment, MPS' overall state equalization aid is projected to decrease, boosting cost pressures by tens of millions of dollars. The combination of increasing expenses and declining enrollment will result in significant budget gaps unless substantial adjustments are made.

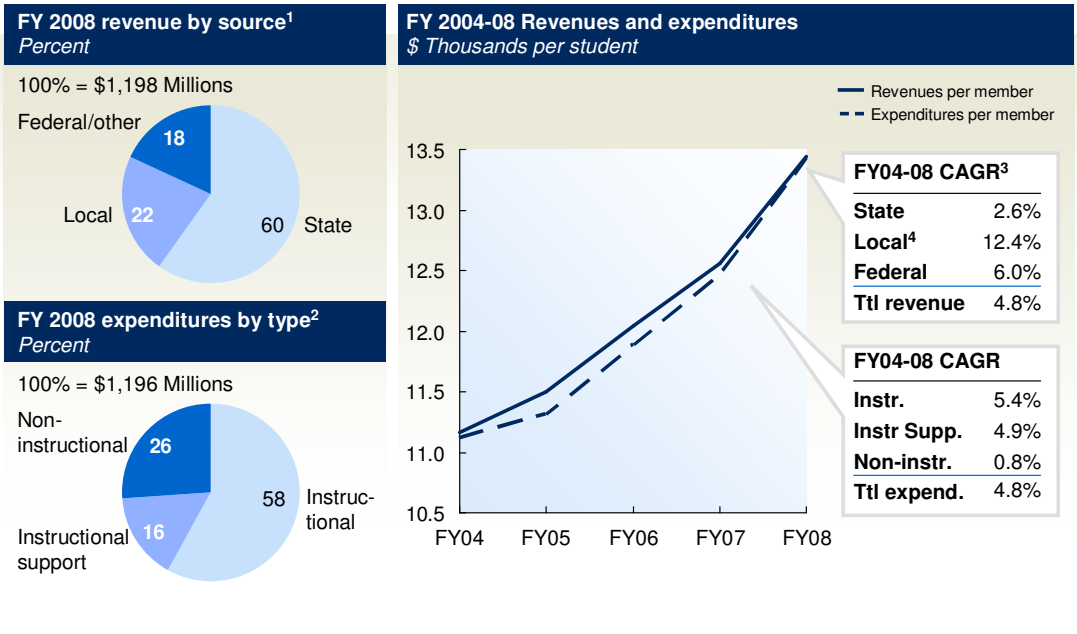
Budget analysis and benchmarks

In FY2008, MPS' budget was approximately $1.2 billion. Over the past 5 years, total revenues and total expenditures have grown at a rate of just over 2 percent annually, and, across all funds, the budget has been balanced (see Figure A.1 in the appendix). MPS receives the majority of its total revenues from the state (60 percent in FY08), with local funding making up 22 percent,

and federal/other funding the remainder.[3] MPS spends the majority of its funds, or 58 percent, on instruction.[4] The remaining funds are spent on non-instructional areas (26 percent)[5] and instructional support services (16 percent).[6]

Figure 1.4

Overview of MPS' 2008 budget



1 Excludes interfund transfers, fiduciary revenues, revenue transits, adjustments and refunds, insurance and judgments
2 Instructional includes all face-to-face instructional-related costs (e.g., teacher salaries/benefits, classroom supplies, etc), non-instructional includes transportation, operation, administration, facilities, food, and community service spend, instructional support includes pupil services (e.g., guidance, library media, health, etc.), school building administration, staff training and support; excludes fidcuciary expenses, revenue transits, adjustments and refunds,insurance and judgments
3 CAGR: Compound annual growth rate
4 Local refers to property taxes
Source: DPI; Team analysis

Compared with national benchmarks, MPS' spending on education is roughly in line with comparable districts and other large urban centers (see Figure A.2 in the appendix). Using data from the National Center for Education Statistics, in 2006 (the latest year for which national data is available) about 55 percent of MPS' total expenditures went toward instruction in FY 2006, compared with 51 percent for the largest 100 districts by enrollment and 52 percent for the

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3 These figures represent all funds received by the district, with the exception of fiduciary expenses, revenue transits, adjustments, and refunds, insurance, and judgments. This total revenue amount includes sources, such as the community service levy, that are not considered for purposes of state equalization aid. The state share of equalization aid to MPS is significantly higher (74 percent in FY08).

4 Instructional spending includes all activities directly related to the day-to-day instruction of students (teacher salaries, classroom supplies, etc.).

5 Non-instructional spending includes activities such as transportation, operations, administration, facilities, food, and community services.

6 Instructional support services include pupil services (guidance, library/media, health), school building administration, and staff training and support.

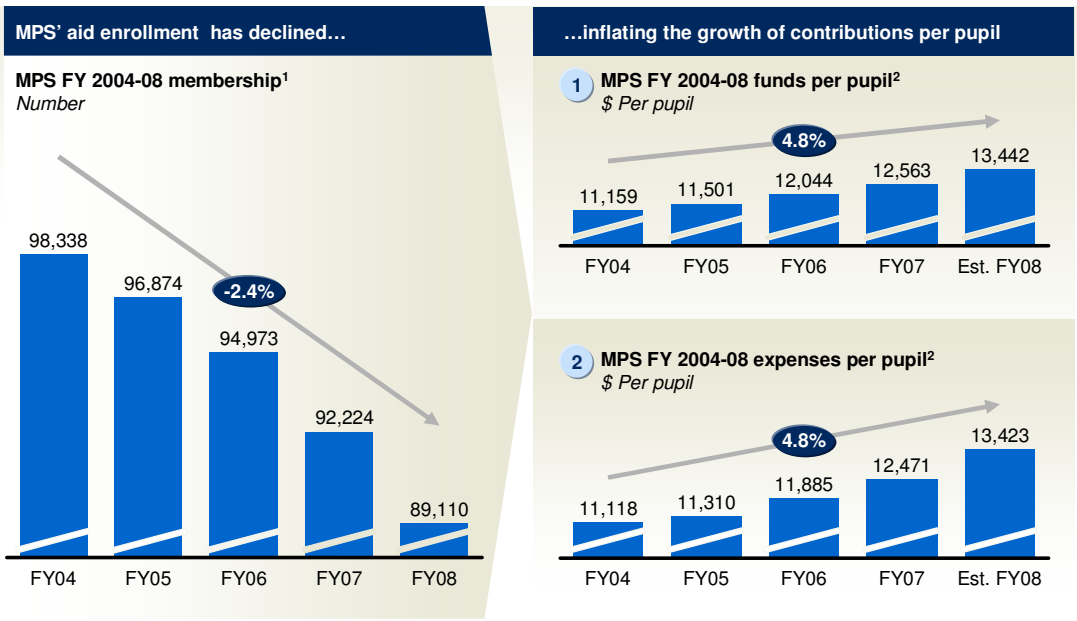
nation. In terms of only current K-12 expenditures (i.e., excluding capital, debt service, and non-K-12 spending), MPS spent about 61 percent in FY 2006, the same proportion as both the nation and the largest 100 districts.[7]

While MPS' overall budget has grown by about 2 percent annually, MPS' revenues and spending on a per-pupil basis have grown at a much faster rate: approximately 5 percent. In FY08, MPS spent approximately $13,400 per pupil, up from about $11,100 just 5 years earlier.

Part of this increase in per-student expenditure is due to declining enrollment. MPS enrollment fell by more than 9,000 students, or about 10 percent, from FY04 to FY08.

Figure 1.5

MPS enrollment and per pupil contributions



1 Membership taken as sum of: average of 3rd Friday Sep enrollment and 2nd Friday Jan enrollment, FTE count for summer school, group/foster home, and part time pupils; current year aid is calculated based on prior year's membership
2 Revenues and expenses exclude interfund transfers and other financing proceeds; FY04-07 data taken from DPI 4-year comparative financial data; FY08 data is unaudited and represents preliminary perspective for analysis
Source: DPI

Despite the recent increases, MPS per-pupil spending remains roughly in line with comparable urban school districts, both within Wisconsin and in other states (Figures 1.6 and A.2). Based on FY07 data (the most recent year available for intrastate comparisons), MPS spent $12,471 per pupil, or about $1,000 more than the statewide average. While Milwaukee is much larger and has much higher rates of poor and special needs students than the state average, several other Wisconsin districts with relatively high poverty rates and higher rates of special needs

7 NCES estimates of spending on instruction differ from DPI estimates due to slightly different calculation methods and the different years under examination.

students were examined. Compared with these districts, MPS spent 6-8 percent more than the Green Bay and Beloit School Districts per student, but 6 percent less per student than the Madison Metropolitan School District.

In 2006, the latest year available for comparison, MPS spending was higher than the national average, but roughly in line with other large urban districts. Compared with other large Midwest urban districts, Milwaukee spent more per pupil than Chicago, but less than Minneapolis, Cleveland, and Detroit.

Figure 1.6

Per student expenditures by district

		Enrollment *Thousands*	% Poverty[1]	% Spec. needs	FY 2007 expenditures *$ Per member*
State comparisons	MPS	92.2	77%	19%	12,471
	Madison	24.9	44%	18%	13,279
	Green Bay	19.9	45%	19%	11,712
	Beloit	7.0	71%	21%	11,500
	State average	2.0	31%	16%	11,412
					FY 2006 expenditures *$ Per member*
National benchmarks[2]	MPS	95.0	72%	18%	11,885
	Chicago	421.0	74%	13%	10,583
	Detroit	129.1	75%	15%	12,262
	Cleveland	58.8	82%	19%	14,681
	Minneapolis	38.5	67%	15%	15,163
	National average	3.0	42%	14%	10,152

1 Defined as percent of students qualifying for free or reduced lunch, October 2007 data from DPI
2 MPS data taken from DPI FY04 – 07 Comparative revenue and expense data; national benchmarks taken from NCES data
Source: DPI FY04-07 Comparative revenue and expense data; National Center of Educational Statistics (NCES); DPI special education enrollment data

Breakdown of revenues and expenditures per pupil

Figure A.3 in the appendix shows the breakdown of MPS budget revenues on a per-pupil basis over the past 5 years. Property taxes have contributed an increasing portion of the overall budget and, as a percentage of total revenues, have risen far faster than any other source of revenue: by 12 percent annually from FY04 to FY08. Federal aid, meanwhile, rose at half that pace, 6 percent. Total state aid has continued to increase at 2.4 percent over the past 5 years, a rate closer to inflation.

Figures A.4 through A.7 in the appendix illustrate the breakdown on the expense side. Here, increases in spending per pupil have been caused primarily by declining enrollment, as well as by rising instructional expenses (5.4 percent per year) and instructional support activities (4.9 percent per year). Spending on non-instructional areas, such as transportation, administration,

facilities, and food services, has remained relatively constant, increasing at a rate of only 0.8 percent per year.

Within instructional spending (which accounted for 58 percent of MPS' budget in FY08), purchased services, including supplemental education services required under federal law and educational services for teachers, are growing fastest (by 12.6 percent). However, higher spending on benefits accounts for the largest expense increase ($618 per student). Taken together, salaries and benefits have declined from 84 percent of instructional expenditures in FY04 to 82 percent in FY08. A decrease in the percentage of the instructional budget spent on salaries largely drove this decline, from 56 percent of the total instructional budget in FY04, to 51 percent in FY08.

Similarly, within the budget for instructional support (16 percent of MPS' total budget in FY08), spending on purchased services, such as curriculum coaches, training for psychologists, guidance counselors, and supply expenses are growing at the fastest rates. However, in terms of absolute change in dollars, most of the growth is driven by increases in salaries. As the number of FTEs in 2008 was not available, it is uncertain how much of the growth in salaries was due to increases in the number of employees relative to salaries per employee. It should be noted that increases in salaries per employee could be driven by either increases in salaries for the same employee or replacement of an employee with another higher-cost employee.

In the non-instructional area, the largest increases in spending in both percent and absolute terms are in benefits. Despite decreases in staff, spending on benefits has risen steadily from FY04 to FY08. Further, while purchased services, including transportation, utilities, and property services, still represent between 45 and 50 percent of total non-instructional spending per pupil, the total amount spent on purchased services has declined steadily, particularly in facility remodeling and acquisition services.

MAJOR DRIVERS OF REVENUES, EXPENSES, AND LIABILITIES

To understand the pressures on the MPS budget, 13 drivers of changing revenues, expenses, and liabilities were examined:

Revenues

- State categorical aid
- Federal aid
- Property tax levy
- Total available state equalization aid
- Property values
- MPS declining enrollment
- Milwaukee Parental Choice Program (MPCP) enrollment

Expenses

- Employee benefits
- Annual contributions to retiree heath care (known as Other Post-Employment Benefits, or OPEB)
- Cost to serve special needs students
- Instructional spending

- Other instructional support
- Purchased services

Liabilities

- OPEB liability for current and future MPS retirees

Five drivers have had the largest negative impact on MPS' finances since FY04: declining MPS enrollment, increasing MPCP enrollment, increasing OPEB contributions, the rising cost of active employee benefits, and changes in instructional spending. Three drivers have had the largest positive impact in terms of increased revenue: the property tax levy, federal aid, and state equalization aid.

The negative impact of MPS declining enrollment, MPCP enrollment, and increasing OPEB contributions and liabilities, and the positive offsetting impacts of the property tax levy, federal aid, and state equalization aid, are described in detail below. Chapter 2 analyzes benefits spending and proposes options for reining in those costs. Instructional spending was beyond the scope of this study and therefore is not covered here.

MPS DECLINING ENROLLMENT

The State of Wisconsin supports school districts through three primary types of funding: general unrestricted aid, categorical aid that funds specific program costs (i.e. special education, transportation), and the state school levy tax credit. General aid is provided to school districts through an "equalization aid formula" that distributes aid based on the relative fiscal capacity of each district, as measured by the district's per-pupil value of taxable property. MPS receives its largest share of revenue from the state through general aid, which totaled $620 million in FY08.

Under current state law, school districts are limited in the amount of revenue per pupil they can raise through a combination of general school aid and property taxes, also known as a district's "revenue limit." In general, a district may increase its revenue limit by a set inflationary amount per pupil per year – which can be exceeded if approved by a local referendum. Typically, the amount of property taxes a district can levy is the difference between the amount of state aid it receives and its revenue limit.

Given these factors, a school district's enrollment has a direct impact on both its state aid allotment and its revenue limit authority. Declines in enrollment generally result in reduced state equalization aid *and* reduced revenue limit authority. This has certainly been the case in MPS. Based on falling enrollment since 2004, MPS received an estimated $30 million less in state equalization aid from FY04-FY08 than it would have if enrollment had remained steady, thus forcing district to rely more heavily on the local property tax levy to cover costs[8].

[8] This estimate assumes that all other factors in the state equalization aid formula, aside from MPS enrollment, would have remained constant over the FY04-08 period.

MPCP ENROLLMENT

The Milwaukee Parent Choice Program (MPCP) is an independent voucher program that served more than 18,000 students in FY08. MPCP enrollment, which is capped at 22,500 students by state law, has grown steadily since the program's inception in the early 1990s.

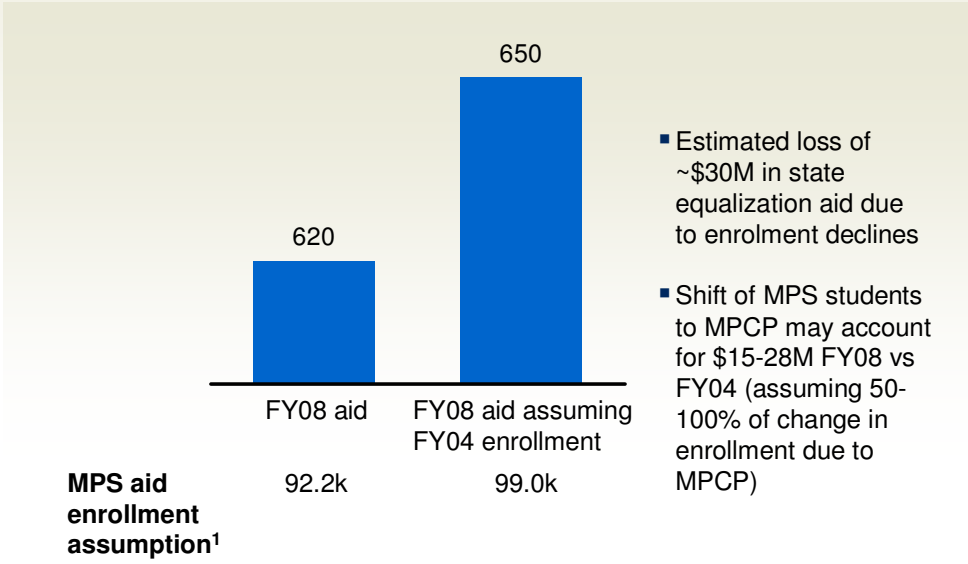
Under the statutory formula for funding the MPCP, the state pays 55 percent of the total cost of the program, while MPS receives an aid deduction equal to 45 percent of the program's cost. State law authorizes the Milwaukee Board of School Directors to increase property taxes to recoup the amount that is deducted from MPS. A new high-poverty aid program, established in the 2007-09 state biennial budget act, provides additional state support to MPS to offset the cost of the MPCP.

The negative financial effect of MPCP is twofold. First, MPCP students are not currently factored into MPS' calculation of property wealth per student, despite the fact that MPS property taxpayers are partially funding the program. As children leave MPS and enter the MPCP and MPS' overall enrollment declines, MPS' property value per student goes up. As a result, the district appears "wealthier" compared with other districts in the state and the amount of state aid the district receives goes down. As noted above, under Wisconsin's school finance system, there is an inverse relationship between equalization aid and a district's property value. Districts with a lower property value per student receive more state aid than districts with higher property value.

Figure 1.7

MPS State equalization aid received

$Millions



1 Current year aid is based on prior year property value assessment and enrollment membership

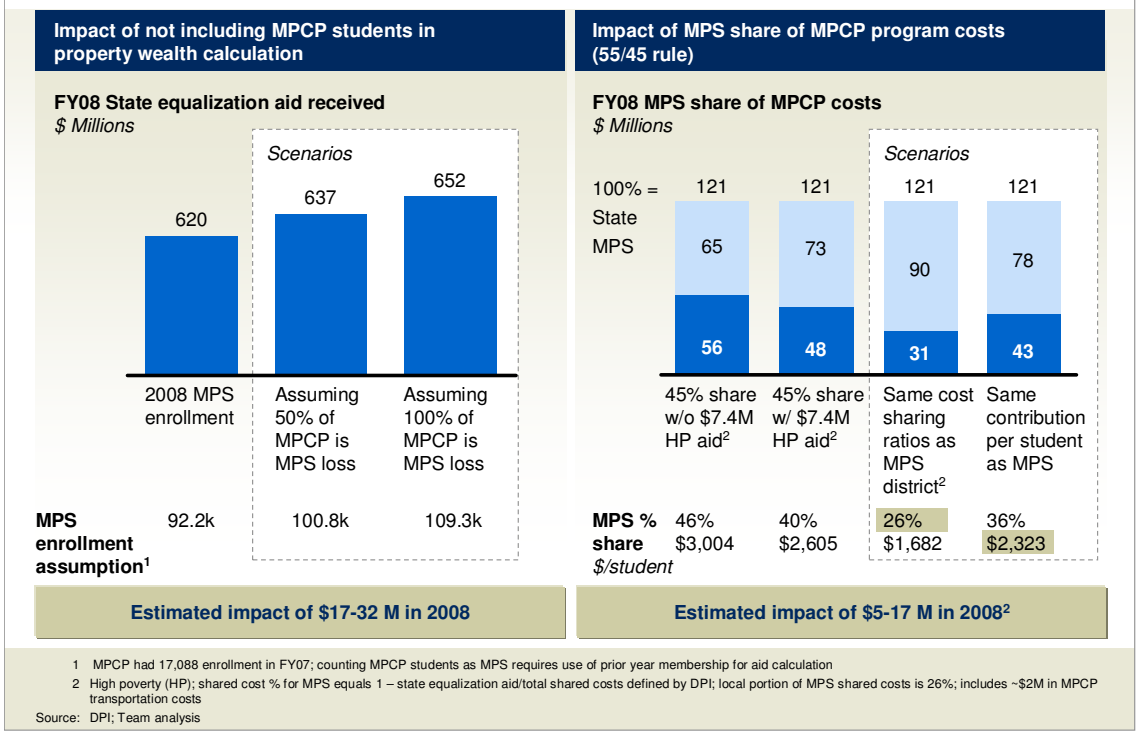
Source: DPI; MPS; Team analysis

The impact of not including some or all MPCP students in the property wealth calculation is significant. If MPS had been allowed to count 50 percent of MPCP students for property value purposes only, MPS would have been eligible for $17 million more in state aid in FY08. If the district were allowed to count 100 percent of MPCP students, the fiscal impact would have been $32 million. If MPS had been allowed to fully count MPCP students under the equalization aid formula (i.e., for purposes of both property value and shared costs), MPS would have been eligible for an additional $33 million (at 50%) or $48 million (at 100%). Note, however, that either of these changes would serve to directly offset the impact of the program on MPS property taxpayers; it would not have resulted in additional spending authority for the district.

The second impact of increasing MPCP enrollment is that as more students enter the MPCP, the program's direct costs to MPS grow. The total program costs for MPCP were $121 million annually in FY08. The state funded $65 million (54 percent) directly, and MPS received an equalization aid deduction of approximately $56 million (46 percent) to fund the cost of the program. In addition, MPS received an additional $7.4 million in high poverty aid for the first time that year. When the high poverty aid is taken into account, the state funded approximately $73 million, or 60 percent of the program's cost, and the district taxpayers funded roughly $48 million, or 40 percent.

Figure 1.8

Impact of the MPCP program



1 MPCP had 17,088 enrollment in FY07; counting MPCP students as MPS requires use of prior year membership for aid calculation
2 High poverty (HP); shared cost % for MPS equals 1 – state equalization aid/total shared costs defined by DPI; local portion of MPS shared costs is 26%; includes ~$2M in MPCP transportation costs
Source: DPI; Team analysis

That 40 percent of MPCP costs equates to $2,605 per student. MPS' share of costs for its own student population (after equalization aid is taken into account) was 26 percent in FY08, or about $2,323 per student, with state aid covering the remaining 74 percent. Had MPS paid an

equal share of program costs for MPCP as it did for its own (26 percent), MPS and City taxpayers would have saved $17 million in FY08. Had MPS taxpayers paid an equal cost per student ($2,323) for both MPS and MPCP, MPS would have saved $5 million. Again, these changes would not have resulted in increased spending authority for MPS, but they would have served to reduce property tax increases associated with the MPCP program.

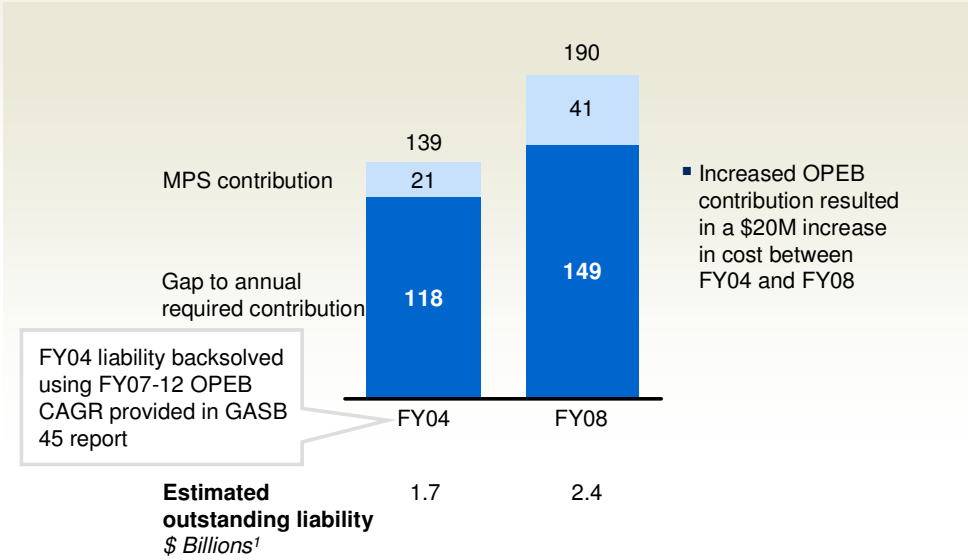
OPEB CONTRIBUTIONS AND LIABILITY

MPS' retiree health care payments and liabilities (known as Other Post-Employment Benefits, or OPEB) continue to increase rapidly. Retiree health benefits have long been bargained as part of employee contracts, and are not unique to MPS. However, MPS, like many school systems, has never set aside money to pay for these benefits promised in later years. Instead, MPS utilizes a "pay-as-you-go" strategy; paying only the health costs actually incurred by retirees in a given year.

Figure 1.9

Other post employment benefits contribution

$ Millions



1 All outstanding liabilities are only offset by pay-as-you-go contributions
Source: MPS/Gabriel Roeder Smith; Team analysis

As health care costs increase, people live longer, and the retiree pool grows, an increasing amount of money will be needed to cover this growing liability. It is estimated that MPS would have had to pay $190 million in FY08 to fully fund its retiree health liability for that year (both current payments as well as both the historically accrued liability and the future liability that was accruing that year). MPS instead paid just $41 million, the cost of retiree benefits coming due in that year. The remaining $149 million resulted in an increase in MPS' unfunded liability – the

estimated amount of retiree health care that it promised to employees that year but did not fund – which the district will have to pay at some point in the future.[9]

As a result of this strategy, MPS' "pay-as-you-go" payment alone nearly doubled in the past 5 years (from $21 million to $41 million), increasing at 20 percent annually. These costs are expected to reach nearly $96 million by FY13. In addition, MPS' overall unfunded liability is expected to grow from $2.4 billion in FY08 to $3.8 billion by FY13.10 Pay-as-you-go payments are expected to increase from $41 million to approximately $80 to $90 million by FY13. And, as MPS enrollment declines, the impact of these benefits on per-pupil spending continues to grow.

PROPERTY TAXES

To compensate for these negative cost pressures, the district has relied increasingly on its property tax levy over the past 5 years. As previously noted, school property tax increases are primarily driven by declines in enrollment (i.e., by formula, state equalization aid and property wealth are tied to the number of students enrolled in a district) and an inflationary increase in the revenue limit. As enrollments have declined, property tax revenues have increased by 31 percent, over $80 million, from FY04 to FY08. Increasing property taxes have also had the largest impact on a per student basis, increasing from $1,863 in FY04 to $2,969 in FY08, or a total increase of $1,106 per pupil.[11]

Despite these increases, however, MPS' property tax mill rate is in line with comparable districts in Wisconsin (Figure A.9). In addition, MPS has received additional state general and categorical aid, as well as federal aid, which have helped to alleviate the district's financial pressures.

FEDERAL AID

Federal aid to MPS has grown substantially over the past 5 years, by $24 million, or 14 percent. The largest increases in federal aid have been in Title I funds to support low-income children and IDEA funds to support special education. On a per-pupil basis, total federal aid per pupil increased by $451, from $1,719 in FY04 to $2,170 in FY08.

Given its recent passage, the impact of the 2009 American Recovery and Reinvestment Act was not analyzed for this report. However, federal funds to the district are expected to increase substantially in FY10 and FY11. However, guidance from the United States Department of Education stresses that these funds are intended to provide a temporary, one-time infusion, and should not be built into the district's base budget.

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9 *Retiree Healthcare and Life Insurance Programs: Actuarial Valuation as of July 1,* 2007, *Gabriel, Roeder and Smith.*

10 Ibid.

11 Due to the timing of the analysis for this report, all calculations in this section are based upon unaudited FY08 data and, as a result, may be 1-2 percent off.

STATE AID

Despite a 10 percent decline in student population over the past 5 years and increasing enrollment in MPCP programs, MPS received approximately $2 million in additional net state aid (after deductions for MPCP participation) from FY04 to FY08. The increase in state aid per pupil has been significant: total state aid per pupil has MPS has increased by $772, from $7,192 in FY04 to $7,964 in FY08.

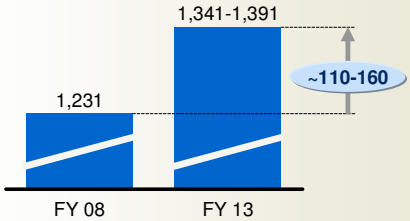
State equalization aid before deductions for MPCP and independent charter schools has gone up from $611 million to $620 million over the past five years. This represents an increase from $6,212 per student to $6,955 per student, or $743 per student.

Total state general aid to MPS (including integration funds) after deductions for MPCP has declined by about $1 million over the past 5 years. As noted previously, this net aid is directly tied to enrollment and MPCP participation. On a per-pupil basis, however, general aid increased by $633 per student, from $6,266 in FY04 to $6,899 in FY08.

Figure 1.10

Projected increases in MPS expenses

FY13 projected MPS expenses
$ Millions



Major per pupil cost growth rate assumptions

	Low	High
Salaries[1]	FY 04-08	FY 04-08
Active employee benefits[1]	FY 04-08	FY 04-08
OPEB	FY 04-08	FY 04-08
Purchased services[2]	Proj. inflation	Proj. inflation
Supplies	Proj. inflation	FY 04-08
Other	Proj. inflation	FY 04-08
Enrollment decline[2]	~1.7%	~1.7%

Key drivers	Estimated change FY 13 vs. FY 08
▪ OPEB	$45 MM
▪ Active employee benefits	$46 MM
▪ Salaries	$41 MM
▪ Supplies	$1 MM to $31 MM
▪ Purchased services	$5 MM
▪ Other (e.g., capital leases, fiduciary, debt)	-$28 MM to -$6 MM
Total	**~$110 MM to $160 MM**

1 Historical change in salary costs include decreases to FTEs
2 MPS estimate based on grade level enrollment; historical decline of 2.4%
Source: MPS Finance; team analysis

While enrollment declines have also affected the district's allocation of state funding for specific programs, categorical aid to MPS has increased by $3.8 million over this period, from $91.1 million in FY04 to $94.9 million in FY08. MPS has benefited from additional state funding related to the Student Achievement Guarantee in Education (SAGE) small-class-size program, special education, transportation, library aid, and the school breakfast program. While it is not captured in these figures, the district also received a unique $10 million in categorical aid from the state in

FY09 for MPS Achievement Grants, which the district is using to support mathematics education. Total categorical aid per student has increased by $139 per student, from $926 in FY04 to $1,065 in FY08.

5-YEAR FINANCIAL PROJECTIONS AND SCENARIOS

Although MPS has managed to balance its budget in the face of these cost pressures over the past 5 years, it will face new and significant challenges in the coming years as enrollments continue to decline. MPS will need to find internal cost savings in non-instructional operations, and will likely need new revenue sources, to balance its budget by FY13.

With the assistance of MPS and DPI, the project team created a simple, high-level financial model that indicates that MPS can anticipate increased costs of $110-160 million over the next 5 years. The key drivers of this increase are growing OPEB liabilities, benefits for active employees, salaries, supplies, purchased services, and other areas, including capital leases, fiduciary expenses, and debt.

Assumptions

Projected cost increases per pupil for FY08-FY13 based on the following assumptions:

- For the high range of projected expenses, it was assumed that salaries, active employee benefits, OPEB expenses, supplies, and other expenses continue to grow at the same rate as in FY04-FY08 on a per-pupil basis.
- For the low range of projected expenses, supplies and other expenses grow only at the projected inflation rate, not at the FY04-FY08 rates.
- Purchased services are expected to increase in line with inflation and not at the double-digit rates experienced since FY04.
- To model the impact this would have on MPS, the team created three scenarios, a best case, a middle case, and a worst case. These scenarios took into account on the following additional assumptions:
- Student enrollments are projected to continue to decline, albeit at a slower rate of 1.7 percent annually.[12]
- The revenue cap will remain in place. Based on recent trends and current law, combined with declining enrollment, we assumed a district-wide increase in revenue limit authority of about $50-$60 million.[13]
- While it is very difficult to estimate, state net general aid is expected to decline by approximately $50 - $60 million due to declining enrollments.
- Based on revenue limit and state general aid assumptions, MPS' maximum property tax levy authority is assumed to increase by about $100-120 million.[14]

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12 MPS estimate. Actual average annual enrollment decline from FY04 to FY08 was 2.4 percent.

13 Based on actual FY08 figure, which reflects a $15 million under-levy, and assumptions for future years.

14 Property tax levy assumption reflects only increases under the revenue cap. It does not include community service or debt tax levies, which are outside of the revenue cap.

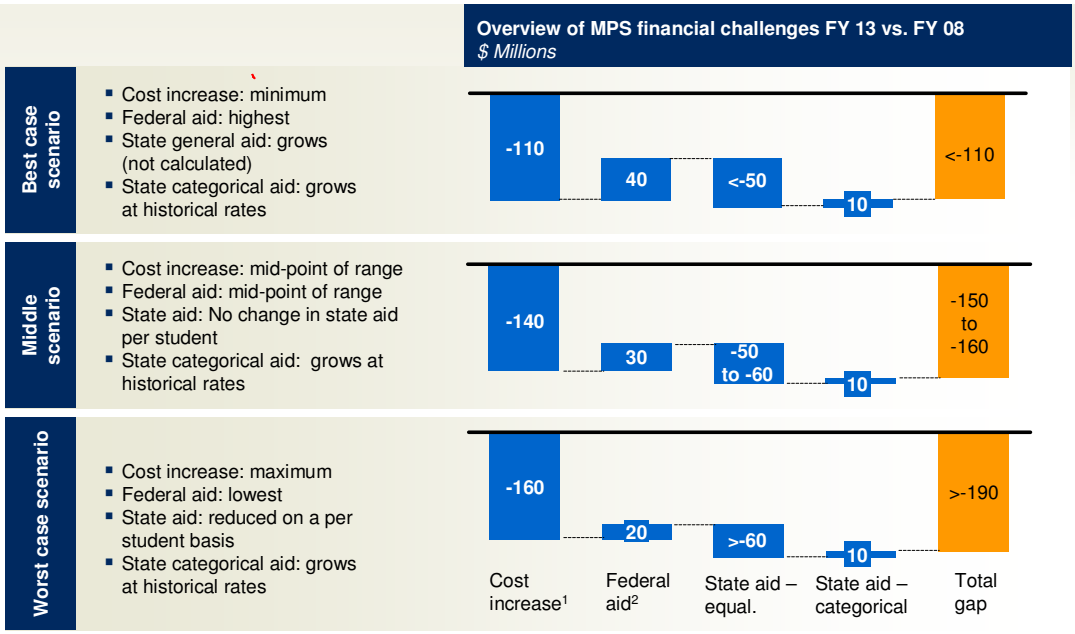
- Federal aid on a per-pupil basis is expected to grow at inflation in the worst-case scenario and at FY04-FY08 rates in the best case.[15]
- State categorical aid on a per-pupil basis is expected to grow at FY04-FY08 growth rates.

Scenario analysis

Under every scenario analyzed, MPS will experience a deficit within the next 5 years. Even in a relatively optimistic scenario, MPS will still have a gap of about $110 million or more.

Figure 1.11

Scenario analysis - Potential MPS budget pressure



1 Expense assumptions include per pupil costs to grow between inflationary and historical FY 04-08 rate; enrollment decline of 1.7% annually (MPS estimate)
2 Federal aid assumes per pupil funding growth between inflationary and historical FY 04-08 rates; Enrollment projections assume stabilizing decline at 1.7% (MPS estimate)
Source: MPS, DPI, team analysis

Figure 1.11 shows the potential budget pressure on MPS over the next 5 years. The high degree of uncertainty surrounding the economy makes scenario planning around state equalization aid especially challenging. For purposes of this analysis, the team assumed for a middle scenario that overall state aid remained constant, while MPS enrollment continued to decline at 1.7 percent annually. In this scenario, with all else being held equal, MPS would see a $50 - $60 million reduction in state aid *due to declining* enrollment alone. Likely offsets from

15 Federal stimulus funding estimates under the American Reinvestment and Recovery Act of 2009 are not included in this analysis. Estimates were not final at the time of the analysis, and are anticipated to be temporary funds. While federal stimulus funds may provide some temporary relief, the US Department of Education has issued guidance to districts that these funds are intended to be temporary, and will not last beyond September 2011. In addition, there may be limitations on these funds that would not allow them to be used to offset expenses from current programs.

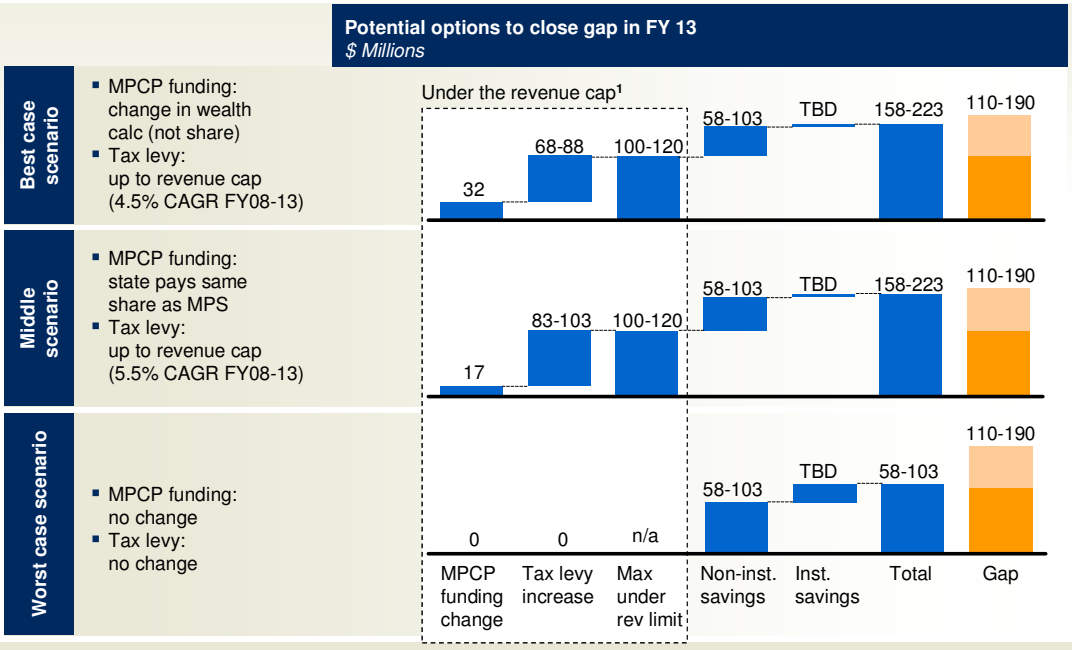
increases in federal aid and state categorical aid would still leave MPS with a potential budget gap of $110-190 million.

MPS will not have the option to simply raise its local levy to escape this situation. The revenue limit is projected to increase by about $100 - $120 million. So, if MPS "taxed to the max," it still would just barely cover the deficit in the best-case revenue scenario with no additional spending authority.

This best-case scenario (from a revenue standpoint) assumes that the local tax levy is increased to the maximum allowed under the revenue cap. However, it cannot be assumed that such an additional levy will be possible, given declining economic conditions or a desire to keep a lid on property tax growth. While no increases in property taxes over the next 5 years may be the best-case scenario from a taxpayer perspective, MPS' already challenging financial situation could become much bleaker under this scenario.

Figure 1.12

Scenario analysis – Potential options to close the gap



1 Funds under the revenue cap include state equalization aid and the local tax levy among other smaller sources; the revenue cap is estimated to increase by $50-60 MM by FY13 with an estimated maximum tax levy increase of $100-120 MM which could be offset by any changes in MPCP funding

Source: MPS, DPI, team analysis

It should also be noted that the number of full-time equivalent (FTE) employees in MPS has declined 17 percent, from 15,893 in FY04 to 13,309 in FY07 (FY 08 figures were not available at the time of this analysis).[16] Assumptions of MPS' expenses for salaries and fringe benefits are

16 MPS 2007 Comprehensive Annual Financial Report (CAFR).

based on these historical growth rates, and imply a reduction in workforce similar to that in FY04-FY08. Inability to maintain these historical rates of change in total salaries and benefits would result in a more rapid increase in costs than is incorporated in scenarios presented here. On the other hand, workforce reductions that impact the classroom could hurt student outcomes.

These estimates do not include any projections for what MPS would need to spend on new instructional strategies. As noted earlier, dramatic changes would likely require new funding, further exacerbating MPS' funding challenges.

BROAD OPTIONS FOR MPS AND WISCONSIN

Given this scenario analysis, MPS will need both to find significant savings and generate additional revenues to balance its budget under any circumstances.

Four main options exist for addressing MPS' financial challenges, summarized in Figure 1.12. On the expense side, MPS could save $58-103 million in non-instructional operations (the focus of this study), plus an additional undetermined amount from instructional operations. On the revenue side, changes to MCPC funding and increased local tax levies can help MPS maximize its revenue available under the state's revenue cap. Taxing to the revenue cap could yield an estimated $50-60 million in new funding by FY13.

Expense options

Reduce spending in non-instructional operations. The team has identified overall potential savings of $58-103 through detailed diagnostics of categories such as transportation, food service, maintenance, administration, and procured items. Chapter 2 provides details of analyses, potential savings levers, and additional considerations to inform discussion and decisions (including the potential impact on instruction). Chapter 3 describes what is required for implementation, including a discussion of the five broad initiatives through which MPS could implement selected savings levers.

Reallocate current spending in instruction and instructional operations. Instructional operations were beyond the scope of this study, as a complete and accurate evaluation would require an assessment of MPS' instructional strategies and a full academic review. This would be a valuable exercise for MPS to conduct, however.

While non-instructional operations do not directly impact school instruction, it should be noted that indirect impacts do exist. These are noted in the subsequent chapters.

Revenue options

Adopt state-level changes in how the MPCP is funded. As discussed above, MPS would see additional state aid and MPS taxpayers would see additional relief if the state changed the MPCP funding mechanism. These changes could include counting some or all MPCP students for property value purposes in the state's equalization aid formula ($17-$32 million impact in FY08), counting some or all of the MPCP students for both property value and shared cost purposes in the state's equalization aid formula ($33-$48 million in FY08), increasing the state's percentage of MPCP costs to equal the state share of MPS' costs ($17 million impact in FY08), or increasing state funding of the program costs to ensure that district taxpayers fund roughly the same amount per pupil for MPS students and MPCP students alike ($5 million impact in FY08).

Increase the local tax levy. MPS could choose to increase the local tax levy by the amount allowed under law and to recover lost state equalization aid due to declining enrollment and MPCP enrollment. "Taxing to the max" under the revenue cap would generate an increase of approximately $100-120 million in local property taxes. However, only approximately $50-60 million of those dollars are estimated to be new spending authority for the district, as the remainder compensates for state equalization aid lost due to the district's declining enrollment.

CHAPTER 2

Detailed Assessment of Savings in Non-Instructional Operations

This section provides detailed analyses to support one of the four options for addressing MPS' financial challenges: savings in non-instructional operations. This research was undertaken with the goal of identifying specific and actionable options that could help address MPS' financial challenges.

This section is broken into six parts: procurement of supplies and textbooks, food service, transportation, administration, benefits, and maintenance and facilities. Each part focuses on the diagnostics and potential savings opportunities available to the district. How these levers might be organized into cross-cutting initiatives (e.g., lean operations or purchasing) and implemented is covered in Chapter 3 of this report.

As with all analyses in this report, these are not recommendations but options that policymakers may choose to act on. Some of the challenges and trade-offs associated with each lever are highlighted in the "additional thoughts" section for each category.

OVERVIEW

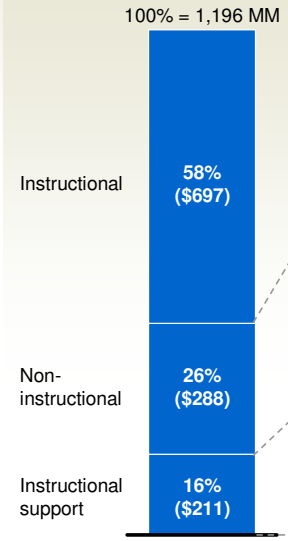
Milwaukee Public Schools spent approximately $1.2 billion in FY08. Of that total, approximately one-third ($405 million) was within the scope of our review. The scope was limited to ensure that functions directly impacting instruction were not evaluated in detail without a broader assessment of MPS' instructional strategy. Where appropriate, the report highlights any options that have potential direct impacts on education.

As shown in Figure 2.1, the review encompassed the $288 million of spending dedicated to non-instructional operations (e.g. food service, maintenance, transportation), as well as $101 million in school building administration and support spending. Specific administrative roles examined include principals, associate principals, school building clerical staff, learning coordinators, general education assistants, and non-special-education paraprofessionals. These roles contain both instructional and non-instructional components. Additionally, approximately $16 million in instructional textbook spending was examined as part of the purchasing function. Textbook pricing and purchasing, not the textbook selection process, was reviewed.

Figure 2.1

Non-instructional review: focus areas

In scope for ops review
Bold text Analyzed spend



Spend category	Est. expend. $ Millions
Undifferentiated curriculum	330
Special education curriculum	125
Regular curriculum	106
Textbook spend	**~16**
Other	120
Maintenance	**82**
Transportation	**62**
Food services	**38**
General supplies *(spans multiple categories)*	**~36**
Utilities	25
IT	**~10**
Security	**~9**
Other	**~26**
Principals and APs	**34**
Clerical and other admin	**34**
Learning coordinators/paraprofessionals	**33**
Psychological services and social work	30
Instructional staff training	15
Guidance	6
Other	59
Total in scope	405
Total analyzed[2]	**380**

1 Expenses exclude refinancing, debt, fiduciary expenditures, adjustments and refunds, insurance and judgments
2 IT services, security, and other non-instructional spend wree analyzed as part of the benefits analysis only
Source: FY 2004-08 MPS State Annual Report (PI-1505)

Overall savings potential: Changes in non-instructional operations could yield $58-103 million in annual savings for MPS. Redesigning benefits for non-instructional employees could free up $23-43 million, while another $35-60 million in savings could be captured through efficiency gains in procurement of supplies and textbooks, food service, transportation, maintenance and facilities, and administration. The following sections detail where these savings opportunities lie.

PROCUREMENT OF SUPPLIES AND TEXTBOOKS

In FY08, MPS spent approximately $51.8 million on general supplies and textbooks. General supplies (e.g. office and janitorial supplies, IT supplies, IT equipment, furniture and other categories) accounted for 70 percent of the total ($36.3 million), while the remaining 30 percent (about $15.5 million) went to textbooks (including workbooks).

Given significant data limitations, these expenditure numbers are approximations. While the central purchasing department has negotiated contracts with certain office and janitorial supply vendors, use of these central contracts is, for the most part, optional; many schools favor their own set of vendors or purchase items directly. Over 60 percent of purchasing occurs at the school level for the categories examined, and much of the school spending is captured only by paper expense receipts. In other words, no electronic data exists for at least half of all spending on supplies and textbooks. To gain an understanding of this share of expenditures, the team manually entered two weeks of paper receipts into electronic format, from which we extrapolated spending by category and associated savings estimates.

Best-in-class purchasing operations are able to realize significant savings through consolidation of purchases and effective negotiations with vendors. At the same time, these best-in-class operations can meet the needs of schools and end-users in terms of product specifications and order turnaround. MPS' current data systems and practices, however, limit the efficiency and effectiveness of its purchasing operations:

- Spending information is not captured in one central database, with (as noted above) over half of purchases documented only by paper receipts.
- For purchases that are tracked centrally, data quality issues may exist (e.g., less-than-accurate budget codes, identification of item type/SKU), limiting the ability to fully understand what and how much schools are ordering.
- Data systems do not track detailed spending at the school level, making it difficult to identify and work with schools that are spending less effectively than others.

Savings potential: The analysis suggests that MPS could reduce purchasing costs by up to $8.0-10.9 million annually, with $5.8-7.8 million of these savings coming from supplies and the remaining $2.2-3.1 million from textbooks.

Supplies

To capture $5.8-7.8 million in savings from supplies, MPS should consider the following options.

a) Comparing prices before purchasing ($3.3 – 5.1 million)

Of the $36.3 million in general supplies, MPS spends an estimated $21.9 million annually in office supplies, janitorial supplies, IT supplies (peripherals and accessories), and office and school room furniture. For these supplies, MPS school employees currently have three main purchasing options: (1) submitting a purchase order (PO) to central purchasing; (2) submitting a direct order to a vendor with which MPS has a centralized purchasing contract; or (3) submitting a reimbursement under direct pay (DP) for items bought out of pocket from a non-contracted vendor. Over 50 percent of spending is processed as direct pay; these orders have paper receipts only and no central electronic record.

An analysis of 23 items from across these purchasing options shows that prices for identical items varied both within and across the options, with no one option consistently offering the best price. For 16 items in office and janitorial supplies, purchase prices varied by 16 to 35 percent. For five types of IT supplies, purchasing prices varied by an average of 36 percent, while two pieces of furniture varied by 33 percent. Figure 2.2 shows examples of such price differences.

Potential savings were estimated by moving the total expenditure for higher-cost items to the lowest-cost purchasing option. By doing so, it is estimated that MPS could save $3.3-5.1 million.

In determining the available savings, the lowest price in the data set was not selected unless that price showed up multiple times; this was to avoid the effect of one-time sale events. Figure 2.3 gives estimates for the amount of impacted spend and percentage savings by category.

Figure 2.2

Examples of MPS purchase prices

Item		Purchasing option *Dollars*			
		No contract, direct pay	No contract, purchasing order	Central contract	Savings *Percent*
Box of Medium Binder clips		1.00	1.19	0.30	72.6
USB Drive 2GB		n/a	19.99	25.89	22.8
Wall clock		17.99	17.74	14.49	18.9
Hand soap		27.80	n/a	25.14	9.6
HP4000 Toner CTRG		n/a	88.95	96.85	8.2

Source: MPS

b) Lowering computer specifications ($0.4 – 0.6 million)

MPS currently maintains two standard specifications for its computer contracts: the higher specification (on average $1,110 per desktop, $1,161 per laptop in FY08) is meant for MPS staff, while the lower specification (on average $879 per desktop, $886 per laptop in FY08) is targeted at students. Discussions with MPS IT officials and administrators suggest that many employees are receiving computers that are overly sophisticated for their needs; 50-75 percent of employees receiving the higher specification could be shifted to the student specification at a savings of $230 per computer. In addition, if these employees could use an even lower specification (i.e., a basic model) MPS could enjoy additional savings of $0.1-0.2 million. We estimated the cost of this lower specification using Dell's online website. The ratio of cost for this base model relative to the current low-specification configuration was applied to the current price of the low-specification configuration to estimate the cost to MPS of the base model. In all, it was estimated that MPS could save $0.4-0.6 million by moving employees to a lower-specification model.

c) Rationalizing stock-keeping units ($2.1 million)

MPS currently has no standard set of general supplies (e.g., specific types of pens or paper) that employees may purchase. Analysis shows that MPS employees currently use a wide array of stock-keeping units (SKUs) at an array of prices for comparable items (Figure 2.4). For example, using FY08 data from the Corporate Express central contract, there are 252 different SKUs for black or blue pens and 18 types of electric pencil sharpeners. MPS could enjoy significant savings if it limited the number of SKUs that employees could purchases. By shifting toward lower-cost SKUs for janitorial and office supplies, MPS could save approximately $2.1 million per year.

Figure 2.3

Overview of savings in purchasing of supplies

Category	Total spend[1] *$ Millions*	Spend Impacted *$ Millions*	Savings Rationale	Savings *Percent*	Savings *$ Millions*
Office/ Janitorial supplies	14.5	9.7	Compared PO, DP and Contract prices to identify cheapest source[2]; each data set is ~1/3 of total spend, with lowest prices found across all buckets	16-35	1.6-3.4
Computers and servers	5.6	4.6	Potential to down-spec 50-75% of staff Dell computers; spend is total spend on Dell computers	9-13	0.4-0.6
Other IT	5.5	3.2	Compared PO, DP and Contract prices to identify cheapest source[2]; lowest price consistently found in dataset comprising 40% of spend	36	1.1
Furniture	1.9	1.8	Compared PO, DP and Contract prices to identify cheapest source[2]; consistently cheapest source comprised $100K of spend	33	0.6
% Total Spend	**27.5** (76%)	**19.3** (53%)			**3.7-5.7**
Total General Supplies Spend	**36.3**				

1 Total spend by category estimated from FY08 data
2 PO = central purchase order data; DP = direct pay data; Contract = prices through centrally negotiated prices
Source: MPS; team analysis

This is on top of the savings identified in the purchase price comparison option (see “a” above). In that analysis, prices were compared within a single SKU (e.g., for one type of black pen). In this analysis, lowest prices across SKUs were examined (e.g., across different quantities and types of pens). Also, the analysis was confined to the Corporate Express contract as there was insufficient data for items purchased through direct pay. Savings were not applied to 100 percent of purchased items. For example, MPS personnel estimated that 10 percent of paper should be of higher quality – and was not applied to technology-specific items such as computers.

Textbooks

MPS can potentially capture $2.2-3.1 million in textbook savings by pursuing the following options.

a) Consolidating textbook spending ($2.2 – 3.1 million)

When purchasing textbooks, each subject committee at MPS currently issues general contracts to vendors. Although several subject committees (e.g., English, Math) may purchase from the same vendor, there is no consolidation of purchase orders across committees. MPS could benefit from lower prices by consolidating these subject-specific purchase orders into larger vendor contracts.

Figure 2.4

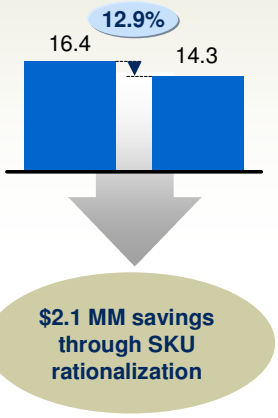
SKU rationalization

Examples: Corporate Express Purchases FY08

	# of SKUs	Cost Minimum	Cost Maximum	Quantity	Average savings[1] *Percent*
White copy paper[2]	29	$2.65/ ream	$4.64/ ream	>129,000	6.9
Black/ blue pens	252	$0.07/ pen	$2.49/ pen	>200,000	63.0
Electric pencil sharpeners	18	$10.84	$106.68	>500	63.0
				Weighted Average	**12.9**

Implications

Total Spend: office/ janitorial supplies and furniture
$ Millions



1 Savings from shifting all quantities to least cost SKU
2 Kept 10% of white copy paper spend for higher quality 96B; 90% at 92B
Source: MPS; team analysis

To illustrate the potential savings, prices were compared for the same textbook orders between MPS and systems in Florida, South Carolina, Utah, Arkansas and Houston, Texas, which negotiate state-wide contracts (Figures 2.5 and A.8) and for which online pricing data is available.[17] For 21 titles which were purchased by MPS and at least one of these systems, the

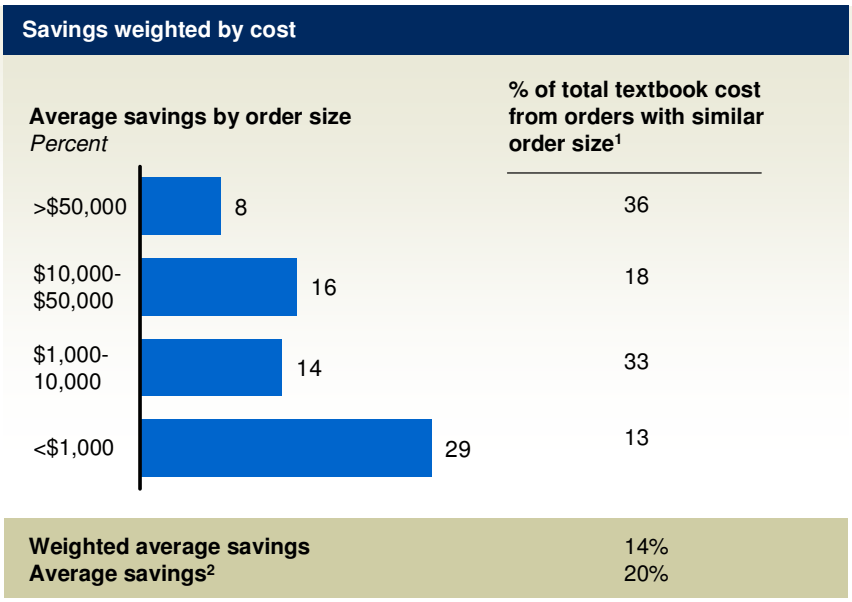
[17] Book prices were obtained from the textbook management websites for the State of South Carolina (www.mysctextbooks.com), Houston Independent School District (http://www.houstonisd.org/portal/site/materialsmanagement/), Florida School Book

average benchmark price was 20 percent lower than for MPS. Weighting these savings according to the size of the purchase order resulted in 14 percent savings. Applying these savings across MPS' $15.5 million textbook expenditures would result in $2.2-3.1 million in savings.

It should be noted that states can negotiate agreements with textbook vendors without imposing a standard state-wide curriculum. Among other options, states may establish a list of approved textbooks from which schools may select or develop volume guarantees. While there may be challenges in establishing state-wide agreements, potential savings across the state could be significantly higher than the 14-20 percent expected for MPS, as smaller districts likely pay higher prices (based on lower volumes) than MPS. Even without state-wide agreements with vendors, MPS has significant opportunity to consolidate purchases across subject committees.

Figure 2.5

Textbook pricing relative to benchmarks



$2.2-3.1 MM in savings

1 Based on data available for select vendors
2 See Appendix Figure A8
Source: MPS; mysctextbooks.com; HISD; Florida School Book Depository; State of Utah Recommended Instructional Material; State of Arkansas; team analysis

ADDITIONAL THOUGHTS

Textbook management systems can help districts ensure that schools have the appropriate number of textbooks and help schools extend the life of their books. Current district policy

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Depository (http://www.fsbd.com), State of Utah (http://delleat.schools.utah.gov/rims/), and State or Arkansas (arkansased.org).

mandates that the maximum life of a textbook is 7 years. However, the actual lifespan of a textbook may vary depending on book damage as well as loss rates. The Central Office could not provide data on the average life of MPS textbooks (and how this varies by school location) or year-end book return rates. By identifying schools with high book-loss rates, MPS might be able to create interventions aimed at reducing losses.

Analysis in other districts has shown that some schools may be purchasing a set of books at the same time that another school is phasing them out. Also, given declining enrollments, some schools may find themselves with excess books. MPS may be able to save money by establishing an internal market to better match supply and demand. The team was unable to analyze potential savings from such an approach due to the lack of data mentioned above.

In general, the lack of data systems tracking details of expenditures on supplies and textbooks created significant challenges for this analysis, which were only partly alleviated by scanning of paper receipts and extrapolating spending and savings. This lack of data may pose additional challenges in managing these categories. The role of textbook purchasing manager in the Central Office was open during the period of the study, which may have exacerbated the data collection issue.

Chapter 3 describes the key elements of a purchasing transformation, including the likely need for a cross-functional effort. For instance, capturing savings from changes to computer specifications and staff computer assignments would require collaboration among IT, purchasing, and school building staff. Even options such as SKU rationalization for basic supplies should involve end-users to ensure a balance between their needs and experience and the knowledge of a skilled purchasing department. These changes may also require an investment in data management systems (e.g., a textbook management system) and a restructuring of existing practices in both central and school building purchasing units.

Food service

MPS spent $38 million on food service operations in FY08. More than half of this spending went to personnel salaries and benefits, while the remainder went to purchased food, supplies, and services (Figure 2.6). After running deficits of ~$2 million/year for multiple years, the Food Service Department achieved a net surplus in FY07. However, increasing financial strains in FY08 resulted in a small deficit again. The department anticipates a net deficit of less than $1 million for FY09.

The Food Service Department has undertaken three major initiatives since coming under new leadership in FY06. That year it consolidated its vendor base so that one primary vendor manages about 75 percent of purchases. In FY07, MPS began a major drive to increase breakfast program participation, resulting in student participation increasing from 15 percent to 34 percent. Research shows that breakfast participation is especially important for low-income students who may otherwise come to school without a meal.[18] Finally, MPS started piloting a "pre-pack" kitchen model in FY07 to capture significant labor savings.

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18 "Child Nutrition Fact Sheet: Breakfast for Learning," Food Research and Action Center.

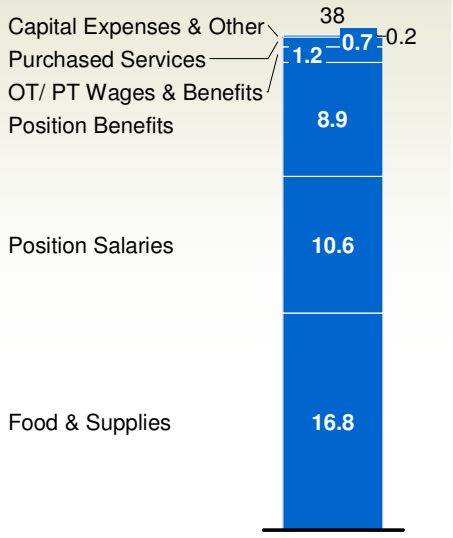
While the Food Service Department has been an innovator within MPS' business operations, additional data could help management further:

- No system is in place for tracking cost per meal and how it relates to student participation rates. Anecdotally, high-priced desserts are sometimes added to increase participation for menu items with low participation rates.
- School-level data on productivity and cost, which currently are unavailable, could be used to measure performance and increase productivity.

Figure 2.6

Overview of food service expenditures and savings levers

Food services expenditures, FY08
$ Millions



Savings levers

	Potential savings *$ Millions* Low	High
1 Decrease cost to serve		
A Move to prepack model	2.8	4.7
B Reduce benefit spend	3.8	5.1
C Manage cost of food/vendors	1.5	3.8
2 Increase revenues		
D Increase price and/ or participation	0.7	1.5
Total	**8.8**	**15.6**
% of base spend ($38 million)	**23.2**	**41.0**

Source: MPS data

Savings potential: Options to improve the financial efficiency of MPS food services could result in $8.8 - 15.6 million in savings, from two broad categories: decreasing the cost to serve and increasing revenue.

Decreasing cost to serve

a) Rolling out the pre-pack kitchen model ($2.8 – 4.7 million)

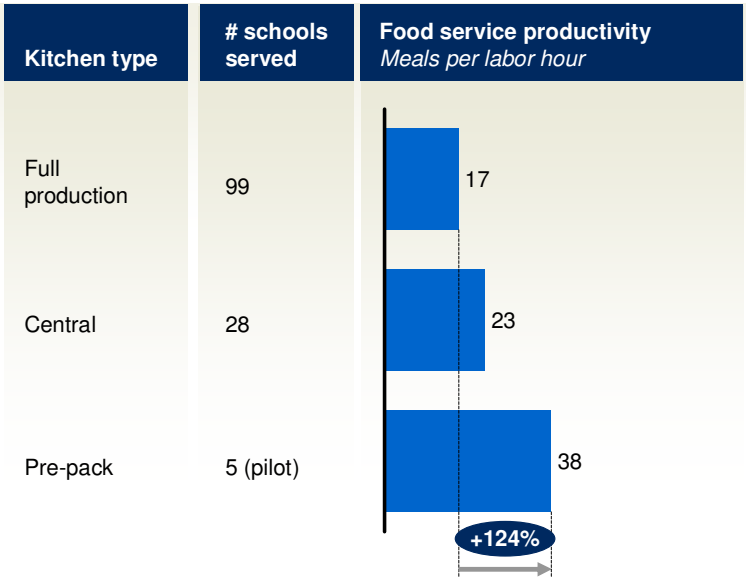
MPS currently utilizes three different types of kitchen models for serving lunch (breakfast is entirely pre-packed), each correlated with a different level of meals served per labor hour (the most relevant measure of productivity).

- Currently, the majority of kitchens are full production kitchens, each located within a school and serving fully prepared meals to that school alone. Although these are the least productive kitchens, they have existed the longest and are thus the most common.

- In recent years, MPS has migrated toward a central kitchen model, whereby a limited number of full production kitchens distribute meals to a set of schools that do not have an in-house kitchen. Although the central kitchen model makes food preparation more efficient, meals still require additional processing once received at the school and it was never fully implemented throughout the district.
- Acknowledging the need for more efficient operations, MPS launched a program in FY08 to pilot a pre-pack kitchen model. Under this model, all meals are prepared at a central location and shipped to schools in pre-packaged containers, and very little manual labor is required to serve students. Food is shipped in both hot and cold packs and the menu and nutritional quality is the same as for other kitchen models. As shown in Figure 2.7, the pilot resulted in nearly a 124 percent increase in labor productivity at receiving schools and a 35 percent increase in total productivity, including serving and food processing, while maintaining or even increasing student participation and meal quality.

Figure 2.7

Kitchen model productivity at MPS



Source: MPS interviews and data

Savings from rolling out the pre-pack program were calculated by comparing staffing requirements for pre-pack versus current needs. Rolling out pre-pack meals to all elementary schools could result in $2.8 million in annual savings; a rollout to the entire district would save $4.7 million each year (Figure 2.8). Additional savings associated with rollout may include food waste reduction, which has not been sized due to lack of data.

The Food Service Department has expressed concern about rolling out the program to middle and high schools based on a belief that meal participation may fall. To address these concerns,

MPS could consider piloting the program in middle and high schools. Alternatively, MPS could implement the program in elementary schools and reassess its viability for middle and high schools as students familiar with the pre-pack model move through the system.

b) Reducing benefit costs ($3.8 – 5.1 million)

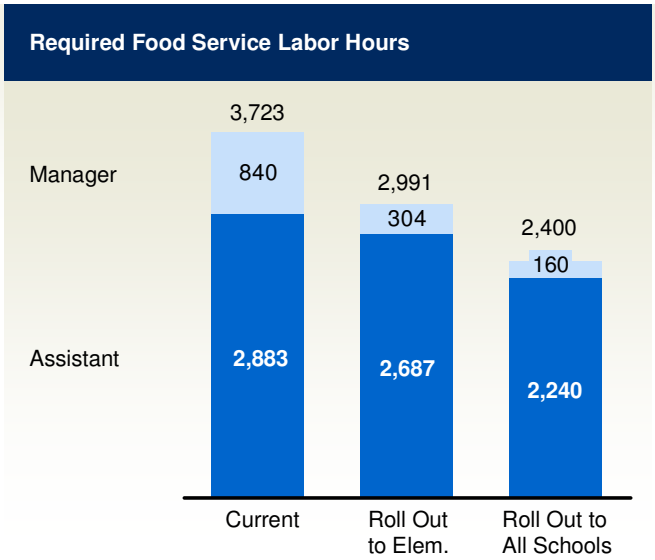
Reducing benefit expenditures in food services is considered later in this chapter where benefits for all categories are addressed.

c) Managing the cost of purchased items ($1.5 – 3.8 million)

Although MPS consolidated its vendor base in FY05, resulting in more than 75 percent of spending going to one vendor, the district has yet to benefit from the full savings associated with this structural change. Since the contract began, MPS has experienced food price increases significantly higher than previous years as well as higher than the national average.

Figure 2.8

Estimated savings from pre-pack kitchen roll-out



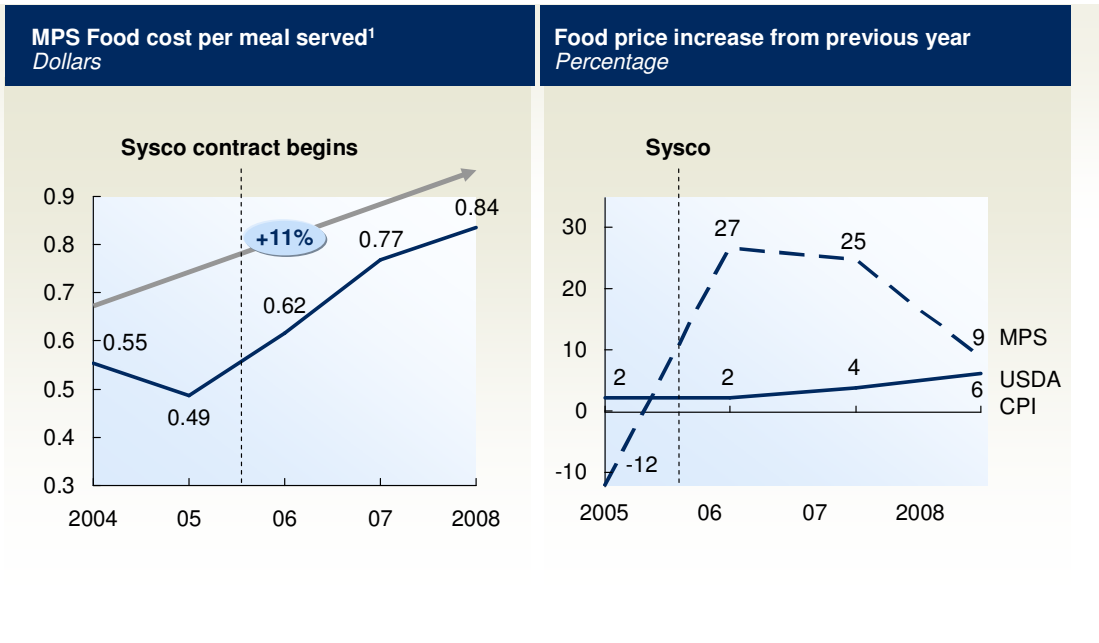
	Current	Roll Out to Elem.	Roll Out to All Schools
Est. labor savings[1] *$ Millions*	n/a	2.8	4.7

1 Does not include benefits spend
Source: MPS interviews and data

Potential savings were estimated by measuring the difference between what MPS actually paid for food/supplies since the Sysco contract began and what costs would have been if prices were in line with national average inflation. The total number of meals and participation rates were controlled for, while food prices were modified to match average inflation. Findings suggest that up to $3 million/year could have been saved if pricing was aligned with average inflation (Figure 2.9).

Figure 2.9

MPS food costs



1 Includes breakfast, lunch and snacks; excludes federal commodity dollars and "other food" budget item
Note: 2007-2008 Food costs include ~1M in direct diversion spend which is NOT included here
Source: USDA Economic Research Service, CPI; MPS expenditure reports

This finding is contrary to the notion that vendor consolidation should result in lower, more consistent pricing over time. One possibility is that MPS has started opting for more expensive products over the last 3 years.

While there is some evidence that MPS could select less expensive items with similar nutritional value or utility, there is no evidence that the selection of these products has increased since implementation of a prime contract. Appendix Figure A.11 provides examples of lower-cost substitutes; prices of substitutes not found in the prime contract were estimated from retail grocery store and online sources. The analysis suggests savings of 25 percent for the three substitutes examined. Applying a similar level of savings to one-eighth of food and food supply expenditures would result in $0.4 million in savings annually, while applying the savings to one-fourth of the expenditures would result in $0.8 million in savings. As such selections do not seem to have changed since implementation of the prime contract, these potential savings likely do not explain (i.e., are in addition to) the increased rate of spending seen since then.

To ensure good value from its vendor, MPS could build and utilize a comprehensive database that tracks the cost of each food and food supply item over time as well as the cost of various substitute products. Any increase in cost relative to the price of inflation could be flagged and discussed with the vendor. In addition, MPS should continue to competitively bid its food and food supply contract at

regular intervals (e.g., annually) and encourage other competitors to place bids. Multi-round e-bids may also be used to ensure that the lowest price is captured.

Increasing revenue

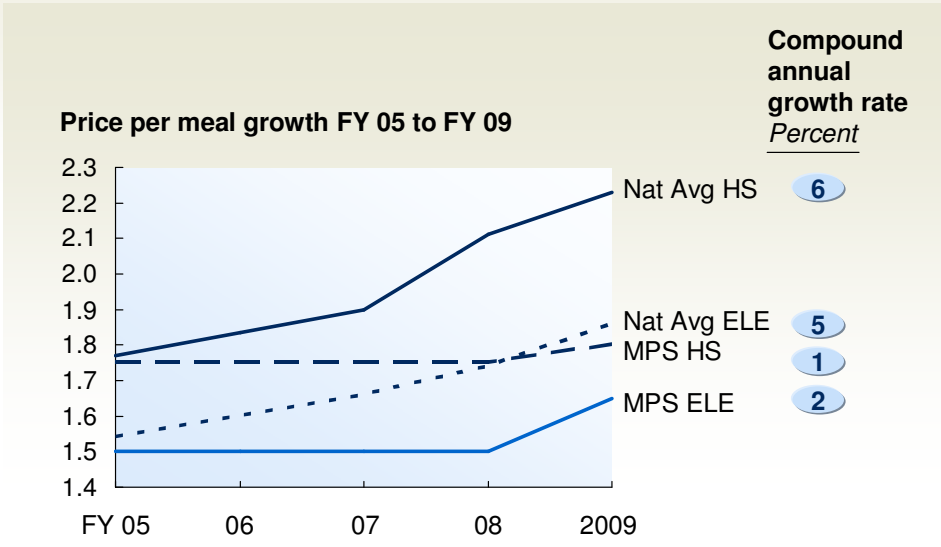
a) Increasing prices and/or participation rates ($0.7 – 1.5 million)

Potential options to boost revenue include increasing prices for paying students or increasing participation of "profitable" student groups. Analysis suggests that, of these two options, increasing prices may have the greatest impact, but it may be difficult given the desire to ensure as many students to participate as possible. Since FY05, MPS lunch prices have been increased only once, and have gone from being aligned with national benchmarks to 10-20 percent below those benchmarks (Figure 2.10). A $0.30 (17 percent) increase would align MPS with national benchmarks and create $0.5 million in savings per year. A $0.70 (41 percent) price increase would allow the lunch program to break even and save $1.1 million annually.

Figure 2.10

Benchmarking

Dollars per meal



Source: MPS, School Nutrition Association

Looking at participation, MPS could create additional savings of $0.2 – $0.4 million per year by increasing student participation in the breakfast program (Appendix A.12). Based on data obtained from MPS, students participating in the breakfast program on a free or reduced-price basis contribute most positively to net profit (~$0.76 profit per meal). Additionally, all students eating lunch currently contribute negatively to profit, with paying students contributing most negatively at ~ -$0.68 profit per meal. This means that free/reduced breakfast-eaters essentially subsidize the lunch program, and increasing lunch program participation without also increasing

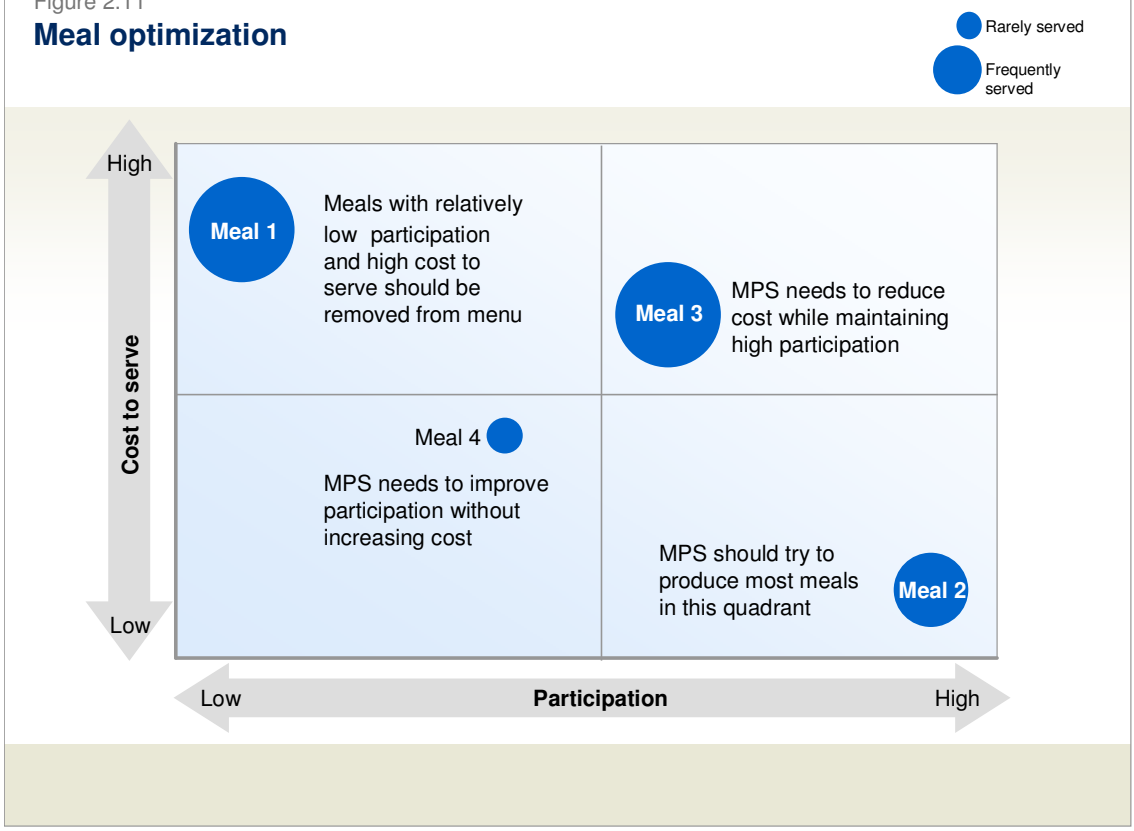
breakfast participation may hurt MPS finances (although there may be other, non-financial, benefits for doing so). However, given MPS' earlier drive to increase breakfast participation, significant additional increases this area may be hard to capture.

ADDITIONAL THOUGHTS

Many of these options carry with them considerations beyond the financial impact. In particular, effects on participation rates and the nutritional content of the food should be taken into account before implementing any savings ideas. For instance, MPS should be careful when substituting lower-cost products if the substitute product has lower nutritional value or will result in a lower participation rate. Alternatively, lower-cost items with the same or improved nutritional value and participation rates should be strongly favored. Tracking meal cost (or, ideally, profitability) relative to participation rates can help MPS optimize its menu management choices by providing popular menu items at the lowest cost (assuming that all the options served meet nutritional standards).

Figure 2.11

Meal optimization



Implementing a pre-pack model would allow MPS to reduce food service personnel by 358 FTEs (84 managers and 274 assistants). While such decisions are always difficult, they may be especially difficult amid current economic conditions.

Other potential cost-savings options that were not sized due to lack of data include consolidating vending machine contracts and improving productivity by actively managing school locations based on cost-per-meal-served data.

In addition to the options listed above, MPS should assess the viability of maintaining operations in-house. Many districts have found it financially attractive to outsource all or part of their food service operations (e.g., preparation or serving), although trade-offs include menu control and the potential impact on food quality. MPS' breakfast program is, for the most part, already outsourced, although MPS provide input into menu selection and box design (to reinforce student health messages). Outsourcing lunch service was not sized as a potential option because MPS is currently seeking bids from vendors. Implementing options to decrease MPS' cost to serve may also make in-house operations more cost-efficient relative to outsourcing.

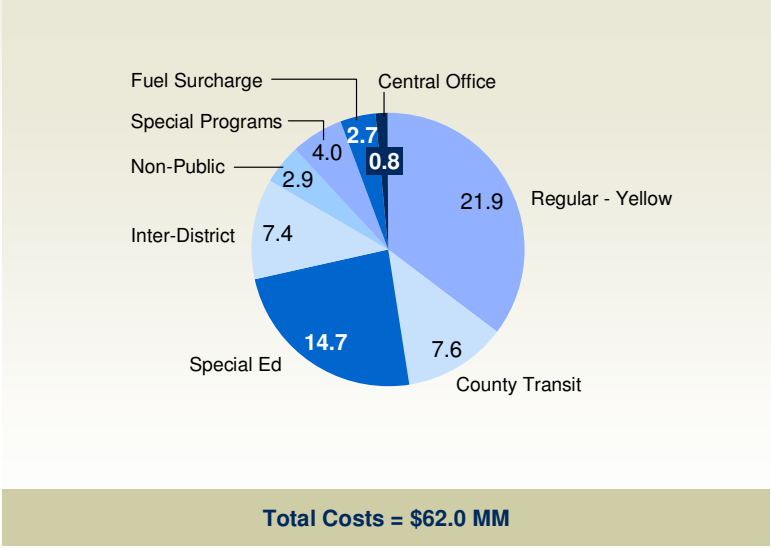
Transportation

In FY08, MPS spent $62 million to provide transportation services for more than 56,000 students (Figure 2.12). Students are eligible for transportation if they reside more than 2 miles from school (1 mile for grades K-8) and more than 1 mile from public transportation (high school students only).

Figure 2.12

Overview of current transportation costs, FY 07-FY 08

$ Millions



Source: MPS Functional Plan – Transportation, Pupil Transportation Services

Non-special education students attending a school in the district, who account for 75 percent of students receiving transportation services, account for only 47 percent ($29.5 million) of the total budget. The other 53 percent of the budget goes toward services for special education and

inter-district students (Appendix Figure A.13). These students have higher per-student costs due to their special needs, long distances traveled, and low-rider density (i.e., fewer students picked up at each location).

MPS fully outsources transportation services to 10 yellow bus vendors. These vendors vary in size from local companies that only serve MPS to national vendors with hundreds of buses available for service. For eligible high school students, MPS also provides public transit fares, at a cost of $7.6 million in FY08.

In the past few years, the school board has sought to cut the transportation services budget by $20 million and to reduce the number of students transported to 42.2 percent by FY12 (from roughly 55 percent now). Efforts to reduce the amount of money being spent on busing and redirecting those funds to the classroom have also garnered community support.[19]

Several opportunities to capture savings in transportation were identified in this analysis:

- MPS maintains 10 vendors and restricts the amount of new routes a vendor can win during the bidding process, thus restricting competition.
- MPS imposes significant barriers to new vendors; new vendors must have available buses in Milwaukee at the time of bid (4-5 months prior to the beginning of the school year).
- Bus service oversight is disaggregated between schools and the central office, with limited communication between the two on the performance of certain vendors; school clerical staff will call vendors directly and ask for new pick-up locations.
- Current routing software is limited and requires daily hand-made changes to reflect changes in routes, etc.

MPS officials report that current barriers to new entrants and limits on changes in territory and number of routes awarded to vendors were born out of previous experience. When MPS attempted to introduce a new vendor several years ago, there was a significant service failure and students were not picked up on the first day of school.

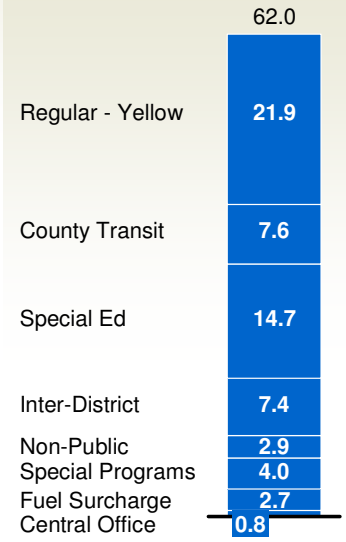
Other large districts have faced similar challenges during vendor transitions. Carefully managed, these transition risks can be mitigated. Best practice requires the vendor to submit detailed transition plans, with milestones and check-in meetings planned. For instance, officials should know where the new vendor plans on getting its buses and the timeline and milestones for getting them. (For example, MPS should know on what day the new vendor expects X percent of buses to be secured, and on what day those buses will arrive in Milwaukee.) The vendor should provide similar detail about the hiring of bus drivers, including the recruiting plan (e.g., which newspapers are they running ads in and when? What are the planned milestones for having 20 percent, 40 percent, 60 percent, etc. of drivers hired? On what day are they training their drivers?), and the development of management/ administration and logistics. During a transition, district officials need to (1) have enough visibility into planning and implementation to know when things are really on track and when they are not; (2) be prepared to push the vendor's thinking, highlight gaps in the plan, and offer recommendations for improvement; and (3) have a

[19] Report of the African American Education Council, 2007, p.12.

contingency plan and penalties at each phase of the transition in case the new vendor / transition is not on track.

Figure 2.13

Overview of transportation expenditures and savings levers



	Potential savings $ Millions	
	Low	High
1 Costs		
A Negotiate lower prices and consolidate supply base	0.8	2.0
B Shift eligible HS and MS students from yellow bus to public transit	0.4	0.9
C Negotiate discount of 25-50% for transit bus passes	1.9	3.8
D Demand management through miles caps and use of closer schools	2.6	5.0
E "Right-size" fleet to increase asset utilization (e.g. smaller buses for routes with few students)	0.1	0.6
2 Revenues		
Have certain students pay for transportation services	1.1	1.8
Total	**7.0**	**14.2**
% of base spend ($62 MM)	**11.3**	**23.0**

Source: MPS; team analysis

MPS officials also highlighted both the service benefits of current vendor relationships (e.g., vendors are willing to help out in emergencies without adding on a lot of extra charges) as well as the long-standing nature of some relationships. Service benefits should be calculated (if significant) and formally included during bidding processes; rough estimates suggest that these benefits are small in terms of dollar impact although no data are available. The actual impact of longtime relationships on the Transportation Department's mission of providing quality transportation at a low cost and the district's mission of educating children is more difficult to assess.

Potential savings: Estimated savings in transportation range from $7.0 million to $14.2 million, with most options related to reducing the cost of service.

Reducing the cost to serve

a) Negotiating lower prices and consolidating the supply base ($0.8 – 2.0 million)

MPS' current bidding process operates on the individual bus level (two routes running twice a day). While routes are re-run and allocated every school year (and adjusted manually throughout the year), the rates from each vendor are determined approximately every 3 years. During this process, vendors bid on three rates: a daily flat rate, a mile rate, and an hourly rate. MPS takes these rates and determines which vendor gets which bus routes by calculating what

allocation would minimize the total price given the constraints on number of buses available from each vendor. Between price bid years, vendors are guaranteed a certain market share, with only small adjustments depending on performance the previous year.

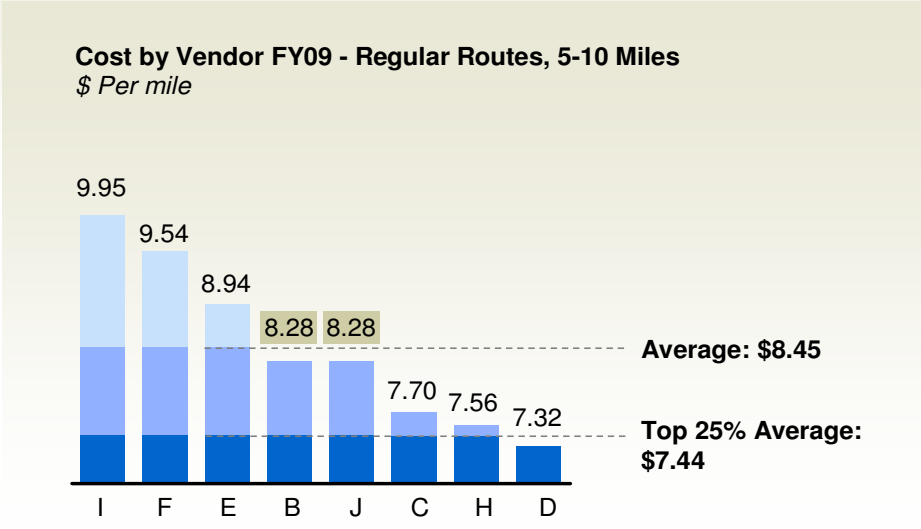
As discussed previously, the current bidding process limits competition as there are significant barriers to entry and limits to changes in route volume. Given the lack of meaningful competition, vendors have little incentive to bid their most competitive prices to try to win additional market share or to offer volume discounts should they receive additional routes.

Savings were calculated by looking at the costs by vendor for routes of varying length (Figure 2.14) and moving higher-cost vendors down to the average and lowest-quartile costs respectively. Using this logic across all yellow bus routes could yield savings of $0.8-2.0 million. It is possible that this method underestimates potential savings as current prices for all vendors (even those with the lowest rate per mile for each route type) may be higher than they would be in a competitive system.

Figure 2.14

Variations in vendor cost per mile

EXAMPLE



Source: Milwaukee Public Schools; team analysis

Savings could be achieved through a combination of best-practice procurement practices. Competition could be increased by relaxing provisions requiring new entrants to have buses on hand at the time of bid and by relaxing limits to shifts in vendor market share. Bidding routes in clusters (e.g., region or school) instead of individual bus routes could incent vendors to offer volume discounts. Bidding routes at the region or school level has the added benefit of simplifying transportation management at the school level. MPS may also be able to implement transparent, multi-round e-bids so that vendors are able to see how their bid compares to that of the winning bid.

Currently, vendors may gain or lose a small number of routes each year based on service level performance. MPS should continue to focus on service level and consider expanding or modifying the incentives to vendors.

MPS has expressed concerns about potential changes in bidding practices based on a belief that vendors would bid more buses than they have in the area and be unable to deliver when school starts. Proper vendor management (as discussed previously) and contractual provisions to enforce service level guarantees should overcome these issues.

b) Negotiating a discount of 25-50 percent for transit bus passes ($1.9 – 3.8 million)

MPS spends $7.6 million on county transit passes for students but receives only a 6 percent discount on weekly passes and no discount on daily passes. Other districts across the country commonly receive 25-50 percent discounts on student fares (Figure 2.15). Chicago Public Schools, for example, enjoys a 51 percent discount on public transit fares for its students.

By negotiating a 25-50 percent discount with Milwaukee Public Transit (MPT), MPS could potentially save $1.9-3.8 million. As a result, however, MPT would suffer a 1.6-3.2 percent reduction in its revenue, and some have expressed concerns about its ability to absorb this reduction in revenue. On the other hand, the discount would make it economically viable to switch a larger portion of students from yellow bus to transit, and this increase in ridership would, to some extent, offset the decrease in MPT revenue – see option (c) below.

Figure 2.15

Benchmarks of public transit discounts

Benchmark Examples

District	Regular Weekly Price	Discounted Weekly Price	% Savings
MPS - Daily Passes	$16.00	$16.00	0%
MPS - Weekly Passes	$16.00	$15.00	6%
Austin	$7.50	$ 3.50	53%
Chicago Public Schools	$17.50	$ 8.50	51%
Houston	$12.50	$ 6.25	50%
San Francisco BART	$32.00	$16.00	50%
Boston	$45.00	$22.50	50%
Denver - Weekly	$31.50	$15.75	50%
Augusta, GA	$10.00	$ 5.00	50%
Larkspur, CA	$10.00	$ 5.00	50%
Madison, WI	$15.00	$10.00	33%
Philadelphia	$20.75	$15.65	25%
Minneapolis	$17.50	$13.50	23%

Source: Milwaukee Public Schools; District and transit websites; team analysis;

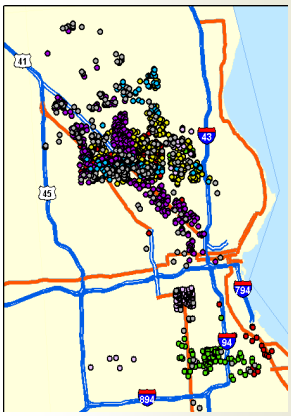
c) Increasing public transit eligibility for high school and middle school students ($0.4 – 0.9 million)

A larger discount on transit bus passes would enable MPS to reduce costs further by shifting an additional 1,400-2,400 high school and middle school students from yellow buses to public transit. This would yield another $0.4-0.9 million in savings (Figure 2.16). While high school students are currently eligible for public transit, providing public transit for middle school students would require a change in policy. Under the current policy, high school students are eligible for public transit if they live within half a mile of a public transit route that directly drops them off within a quarter-mile of their school.

Figure 2.16

Impact of switching yellow bus students to county transit routes

High School students with MCTS[1] access by school
Students



Vincent · Madison Academic Campus · Pulaski · Bradley Tech · Rest · Bay View · Hamilton

Potential Savings

		Scenario 1	Scenario 2
Scenario		Routes where it's more cost effective to transport >75% of students on public transit are eliminated with remaining students added to other routes	Routes where it's more cost effective to transport >50% of students on public transit are eliminated with remaining students added to other routes
# routes impacted		48	91
# students impacted	**HS**	724	1,157
	MS	678	1,296
Savings[2]			
25% discount		$0.4 MM	$0.7 MM
50% discount		$0.5 MM	$0.9 MM

1 MCTS = Milwaukee County Transit System
2 Savings calculated by taking the difference between average annual yellow bus cost/student ($683) and annual cost/student taking MCTS with a 25%-50% on current prices ($411 and $275 respectively)
Source: Milwaukee Public Schools; team analysis

d) Managing demand through miles caps/use of closer schools ($2.6 – 5.0 million)

MPS currently has eight regional boundaries within the district for "regional" elementary and middle schools. These regions are no more than about 6 miles from end to end. Non-citywide schools within these regions (totaling 104 schools) can accept any student from inside the region but no student from outside the region. Boundaries have been proposed but not accepted for three high school regions (approximately 8 miles from end to end). Elementary and middle schools that are not regional schools (the 70 "citywide schools") and all high schools may accept students from anywhere in the city.

Under MPS policy, students are provided transportation services regardless of how far away a student lives from his or her school. This policy decision results in some students traveling up to

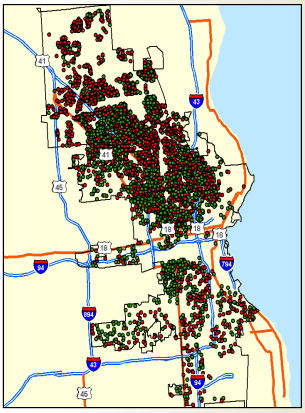
20 miles from their home to certain citywide schools. MPS must add routes or make routes longer to serve these students. Longer routes and a lower density of students along each route result in higher costs for the district.

A preliminary analysis shows potential cost savings of $2.6-5.0 million by capping the maximum allowable distance for transportation. This figure was calculated by estimating the cost for students living more than 6 or 8 miles from the school and comparing it to average cost for all other students (Figure 2.17). The cost per student living 6-8 miles from school was calculated by taking the cost of routes that had 75-100 percent of its students living 6-8 miles from school and dividing this by the number of students on these routes. The cost per student living less than 6-8 miles from school was calculated by taking the cost of the remaining routes and dividing it by the number of students on those routes. This analysis assumes that routes with 75 percent of their students living 6-8 miles away could be eliminated and that the remaining students could be added to existing routes. The 6- to 8-mile cap is in line with reorganizing district transportation into three regions (as proposed for high schools) or eight regions (currently in place for elementary/middle schools).

Figure 2.17

Impact of a mileage cap on transportation

Students living 6 to 8 miles away from school
Students



6-8 Miles
>8 Miles

Potential Savings

Scenario 1

	Cost estimate per student[1] >8 Miles	Cost estimate per student[1] <8 Miles	# of Students	Savings Estimate $ Million
Regular *Avg miles*	$1,145 (10.2)	$656 (4.5)	~3,600	1.7
				+
Special Education *Avg miles*	$6,448 (9.5)	$3,107 (4.8)	~270	0.9
				2.6

OR

Scenario 2

	Cost estimate per student[1] >6 Miles	Cost estimate per student[1] <6 Miles	# of Students	Savings Estimate $ Million
Regular *Avg miles*	$980 (9.1)	$583 (3.4)	~6,800	2.7
				+
Special Education *Avg miles*	$6,133 (7.9)	$3,062 (2.5)	~740	2.3
				5.0

1 Estimate of annual cost per student based on cost of routes with all pick-up locations greater than 6/8 miles from school
Source: Milwaukee Public Schools; team analysis

MPS officials would have to determine how best to continue citywide options under these scenarios. For example, secure drop-off points could be established 6-8 miles from each school. Other challenges and implications of a mileage cap on transportation are discussed in the "additional thoughts" section.

e) Sizing the fleet appropriately to increase bus utilization ($0.1 – 0.6 million)

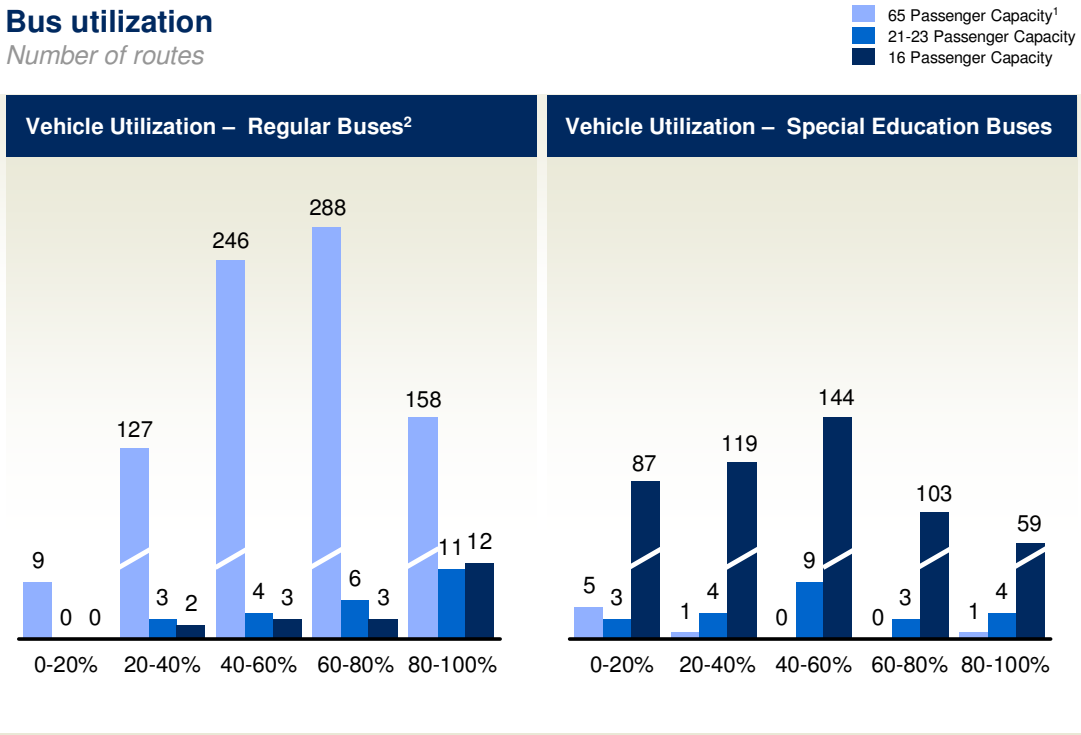
MPS currently asks vendors to provide one of three types of buses to transport its students: a 65-passenger bus, a 21-to 23-passenger bus, and a 16-passenger bus, used most commonly for special education students (while certain special education students require specialized transport, most ride small or large yellow buses). Bids are based on these bus sizes, and no bids for intermediate bus sizes are accepted.

Figure 2.18 shows the utilization rates of MPS' bus routes. The average utilization for 65-passenger buses is 60 percent, while utilization for 16-passenger buses averages 68 percent for regular bus routes.

Figure 2.18

Bus utilization

Number of routes



1 Includes one bus with 42 person capacity
2 Excludes buses running one small route and one route that would have >100% capacity if switch to smaller bus
Source: Milwaukee Public Schools

The cost for running larger buses is higher than for smaller buses. Using data on average cost per mile for each bus type, we estimated that a 65-passenger bus costs $1.31 per mile in vehicle costs (depreciation, fuel, maintenance, and insurance) while a 16- to 23-passenger bus costs $0.81 per mile. (Driver costs may add another $2.00/mile as MPS officials report that vendors pay drivers at least $15/hour for a full 8 hours per day.) Of the 136 bus routes served by 65-passenger buses with utilization under 35 percent, 20 buses were identified with low utilization on both routes served. Switching these to medium-sized buses could potentially save MPS $0.1 million annually. Similarly, switching 16-passenger buses with utilization less than 40 percent (6 passengers) to large mini-vans or small passenger vans (estimated cost of $0.52 per mile) could save an additional $0.5 million annually ($0.6 million total). These estimates of cost per mile

were created using available benchmarks and cost data; they should be re-evaluated using vendor cost data as part of a transportation initiative.

As MPS considers this option, it should note five things:

1. Many of the identified routes had low utilization because the number of students on the routes had decreased since the route was first awarded. Others may have low utilization because no appropriately sized bus was available. In either case, low utilization translates to higher costs per mile for the vendor, which in some form will likely impact the rates that vendors charge MPS.

2. These savings may be conservative as they only account for the large and medium-sized buses required by MPS. Buses come in a variety of other sizes (e.g., 42-passenger; 50-passenger), and MPS could allow vendors to use whatever size bus minimizes their costs and maximizes the utilization for each route. In a competitive environment, vendors would be able to offer a lower bid for routes with high utilization (or lower their bid for the cluster which that route is a part of).

3. As MPS has little visibility into the types of buses that vendors use to serve their students, vendors may already be using smaller buses but charging MPS the 65-passenger bus rate requested in the bid.

4. MPS may not be able to capture these savings immediately as vendors would likely need time to change bus sizes. Larger vendors may be able to reconfigure their fleets (i.e., move buses between MPS and other districts) during the summer. MPS should conduct an inventory of smaller vendors' fleets to determine how many "non-standard" buses (e.g., 42-passenger buses) they currently have.

5. These cost estimates cover only vehicle costs. Adding driver costs of $2.00/mile and $0.44/mile for vendor General &Administrative costs (15 percent of operating costs for 65-passenger buses) would give total estimated costs of $3.75/mile (65-passenger buses) and $3.25/mile (16- to 23-passenger buses). Actual costs paid to vendors are substantially higher: $6.12/mile and $4.81/mile, respectively

Vendors may lack the information needed in order to optimize their bus purchases over time. To facilitate vendor capital planning, MPS should provide vendors with historical data on the number of students by route over time. Given average distributions and annual variability, savvy vendors should be able to optimize their capital planning to maximize their utilization and decrease their costs. Again, in order for MPS to capture these savings, the system must allow for a healthy degree of competition.

Increasing revenue

a) Instituting an annual fee for students not eligible for free or reduced-price lunch ($1.1 – 1.8 million)

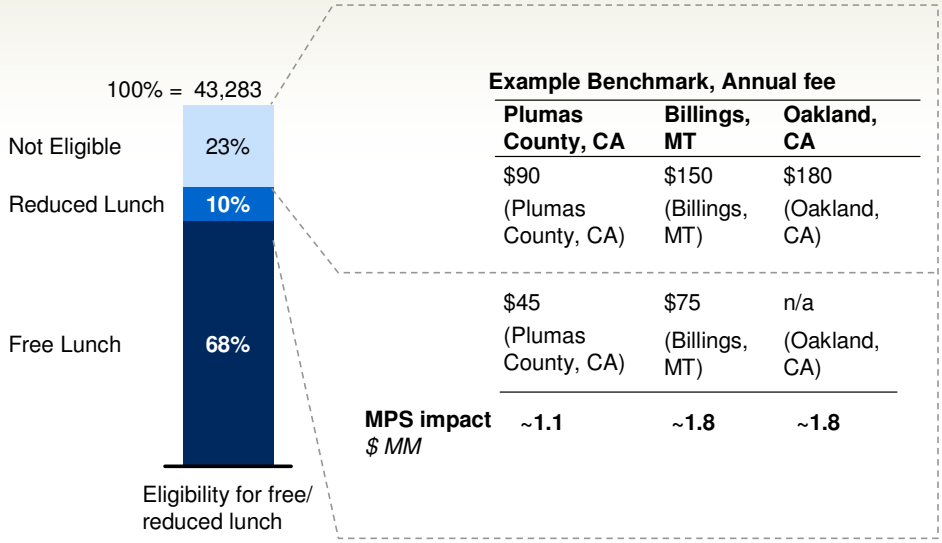
MPS could potentially increase transportation revenue by imposing a fee for students who receive yellow bus service and are not eligible for free or reduced-price lunch. It should be noted that doing so would require a change in state law, which currently prohibits districts from charging fees for transportation services. Several districts across the country do charge students receiving transportation services (Figure 2.19). Analysis shows that requiring a fee of

$90-180 per year for students who are not eligible for the free-lunch program and a lesser fee of $45-75 per year for those eligible for reduced lunch could raise $1.1-1.8 million in revenue.

Figure 2.19

School bus transportation fees for regular MPS students

Percent Students[1]



1 Assumes ratios for free and reduced lunch for all students same for students receiving transportation; Only accounting for regular county and regular yellow students

Source: Milwaukee Public Schools; District Websites; team analysis

ADDITIONAL THOUGHTS

Vendor negotiation and management, discounts on public transit, and improved bus utilization can capture $2.9-6.5 million of the estimated $7.0-14.2 million savings without impact to student choice or method of transportation. Student fees, totalling $1.1-1.8 million, should have no impact on instruction but could potentially result in decreased satisfaction. Imposing fees would also require changes to state law. Should the state allow districts to implement fees for transportation service, MPS may want to consider parent opinions prior to implementation.

The other savings options – a miles cap and increasing the number of students riding public transit – could be worth $3.0-5.9 million annually, but they may have an impact on instruction. A mileage cap in particular should be carefully weighed as it may affect student choice and have implications for the citywide schools. Other districts, such as the Houston Independent School District, are considering similar difficult decisions with their transport systems.

Careful consideration of a mileage cap should include the academic impact on students who may find it difficult to attend a city-wide school given such a cap. At least two important factors should be considered: First, what percentage of students who would be impacted by the mileage

cap could no longer attend their school due to the cap? Second, what would be the likely academic impact on those students?

Similarly, it should be confirmed that transporting students via municipal transit does not have a negative impact on student outcomes relative to those transported by yellow bus. For instance, those using public transit should have similar attendance rates and academic outcomes to those travelling by yellow bus.

In summary, transportation has significant impacts on students, and any changes should be carefully considered. While the emphasis here is on the cost of transportation, the quality of transportation and level of service should remain an important consideration. Student satisfaction should be monitored, as well as vendor service levels (e.g., on-time performance; frequency and severity of accidents).

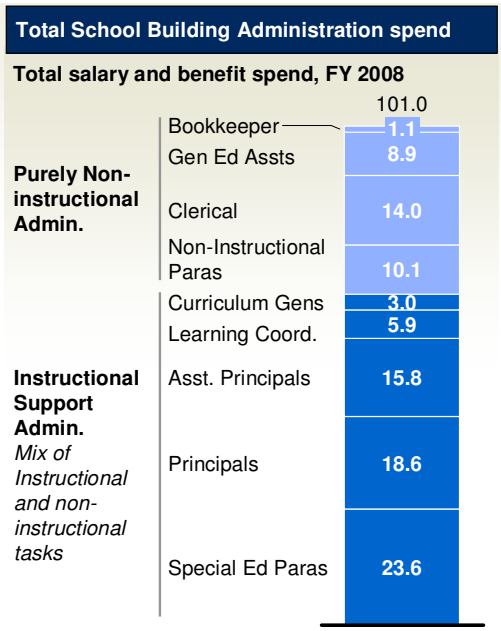
Administration

MPS spent approximately $177 million on administration in FY08. Of that total, $101 million was spent on ***school building administration*** (Figure 2.20), which is broken into two groups for analytical purposes. The first group includes personnel that spend 100 percent of their time on

Figure 2.20

Overview of school building administration expenditures and savings levers

Focus of analysis



Options

	Potential savings *$ Millions* Low	High
A Health Care Benefits Redesign	13.5	23.1
B Reduce variation in Admin staffing/pupil	3.8	5.0
Total	**17.3**	**28.6**
Savings as percent of spend	**17.1**	**28.3**

Potential Lean Operations Hourly Savings

	Potential savings *Hours/Day (Percent)* Low	High
1 Clerical	0.8 (10)	2.8 (35)
2 Gen Ed/Non-instructional Paras	1.0 (12)	2.8 (35)
Total	**1.8 (11)**	**5.6 (35)**

Source: MPS

non-instructional tasks – for example, clericals, bookkeepers, general education assistants, and non-instructional paraprofessionals. Total spending for this group was $34 million. The second group includes personnel whose activities include a mix of instructional and non-instructional tasks – e.g., principals, assistant principals, curriculum generalists, learning coordinators,

literacy coaches, and special education Paraprofessionals. Total spending for this group was $67 million.

An additional estimated $76 million was spent on ***central office administration*** in FY08. Of the $76 million, $26 million was spent in support of operational departments (e.g., food service, transportation, maintenance, procurement, recreation, and IT), while $50 million went to other central office support administration, including to governance, curriculum, mentorship, accountability, and student/community services.

Potential savings: The estimated total potential savings in administration total $17.3-28.6 million. These savings fall into two categories, aligning salaries and benefits with benchmarks and increasing staff efficiency.

Aligning salaries and benefits with benchmarks

a) Restructuring salaries (~$1 million)

MPS spent approximately $117 million on administrative personnel salaries in FY08. The project team benchmarked MPS average salaries against peer districts using data from the Educational Research Service (ERS).[20] Preliminary analyses suggest potential total savings of approximately $1 million based on the following benchmarks:

- MPS salaries for the superintendent, the chief financial officer, clericals, paraprofessionals, and general education assistants are generally in line with or slightly below comparable benchmarks.[21]
- Principal and assistant principal salaries are slightly above benchmarks by roughly 5-10 percent of base pay. However, these savings have not been included in the total savings figure as tenure and other differences may explain the differences observed (Appendix Figure A.14).
- Salaries for director-level positions in the central office are significantly above benchmarks. According to ERS benchmarks, directors are paid on average ~22 percent more than their peers in comparable districts. Comparison of current staff salaries to job postings in major districts also suggests significant opportunity. The director-level position for one major operational department (like many at MPS) makes $132,162 per year. A job posting in Cleveland for a similar position was for a starting salary of $83,000. While differences in tenure may account for a share of the difference, the size of the gap reinforces the idea that MPS director salaries may be much higher than the benchmarks.
- Lacking accurate benchmarks, we did not conduct analysis for manager-level personnel and below, but the data suggests that many central functions employ multiple personnel (in addition to a director) at salaries at or above a director-level salary benchmark, implying that the estimated savings are conservative. In all, 65 central office employees (7 percent) had salaries over $100,000, including 23 director-level positions (or above) and 42 positions below the director level (coordinators, specialists, and managers). Of the 65 employees, 43 were heads of various district departments, with salaries totaling ~$ 5 million. Aligning

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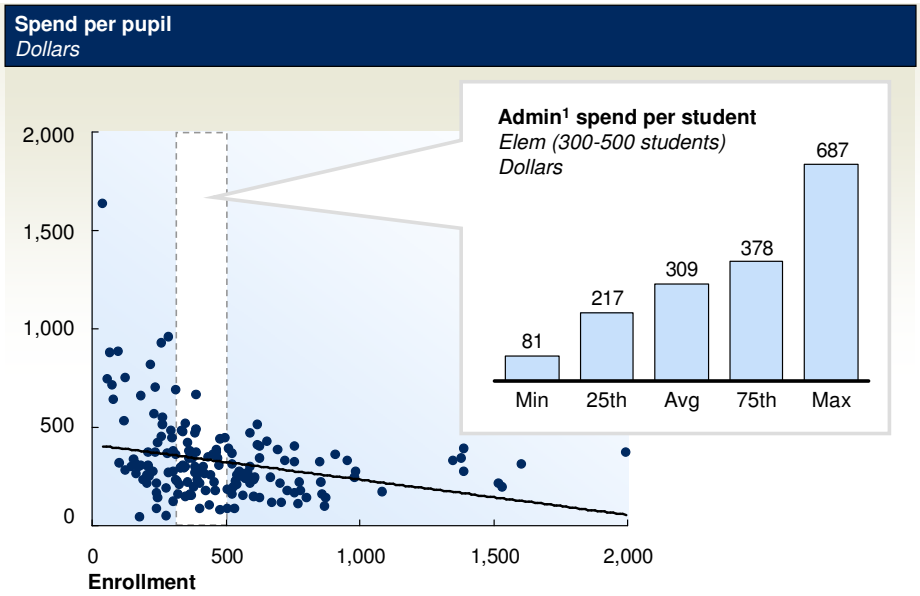
[20] Educational Research Service, National Survey of Salaries and Wages in Public Schools, 2005-06.

[21] Ibid. Note: benchmarks from 2006 were grown at the inflation rate to provide accurate comparisons.

salaries of these department heads with director-level benchmarks would save an estimated $1 million, or 20 percent.

Figure 2.21

School administration spend by school



1 Admin includes only purely non-instructional roles (Bookkeeper, Clerical, and Gen Ed Assts)
Source: MPS HR

b) Redesigning benefits ($13.5 – 23.1 million)

The next section of this chapter addresses reductions in benefit spending for all categories.

Increasing administrative efficiency

a) Reducing variations in administrative staffing levels ($3.8 – 5.0 million)

In addition to the options listed above, MPS may have an opportunity to reduce administrative staff. The team compared MPS' administrative FTEs per pupil with those of other large urban districts.[22] Preliminary analysis suggests that, at the highest level, MPS' central administration staffing appears to be in line with or below these benchmarks.

School building administration staffing is relatively difficult to measure and compare as definitions and roles vary significantly across districts. Thus, we used an internal benchmarking

[22] National Center for Education Statistics, 2005-2006 Survey.

process. Among similarly sized schools, a great deal of variation was seen in administrative spending per pupil.

For purposes of analysis, schools were divided into groups of similar size and levels. By taking the number of non-instructional FTEs (as defined above) per pupil in schools above the mean down to the mean for their group, estimated potential savings are $3.8 – 5.0 million. Schools at or below the average were assumed to maintain current staffing levels (Figure 2.22).

Figure 2.22

Savings from reducing variability in school building administration

Savings[1] Range
$ Thousands

		Enrollment cohort (by number of students)						
	No. of schools =	**39**	**57**	**38**	**16**	**5**	**4**	
		100-300	**300-500**	**500-750**	**750-1,000**	**1,000-1,500**	**>1,500**	**Total savings** *$ Millions*
School type	**Elem**	479-626	1,325-1,734	961-1,257	200-262	-	-	3.0-3.9
	Middle school	6-8	23-30	45-59	142-186	-	-	0.2 -0.3
	High school	123-161	18-24	64-84	90-118	70-92	288-377	0.6-0.8
	Total savings *$ Millions*	0.6-0.8	1.4-1.8	1.0-1.4	0.4-0.5	0.1	0.3 -0.4	

1 Includes both wage and health care benefit reductions for Bookkeepers, Clerical, Gen Ed Assts, and Parapros likely performing both instructional and non-instructional tasks; analysis does not account for potential consolidation of schools (Maintenance lever)

Note: Savings range calculated using starting salaries/benefits on low end and average salaries/benefits on high end

The following schools were identified as "outliers" and eliminated from the analysis (Prof Learning Inst, Sch Age Parents, STAY, Marshall HS, Northern Star, Transition HS, Starms Early Childhood, and Milwaukee County Youth)

Source: MPS HR, Team Analysis

Note that while this analysis is helpful in estimating the potential opportunity, it does not answer the core question of why significant variation in staffing exists in the first place or whether – and, if so, how – the variation can be reduced.

One hypothesis examined was whether variations in funding levels through grants and discretionary funds across schools correlate with staffing variations, but this was not found to be a key driver. Interviews with principals indicated that general levels and flexibility of internal and external funding are similar across schools of comparable type and size.

To get behind this issue of variation, a team of observers went out to school sites to shadow administrative staff. Two things were noted. First, several processes observed across schools were inefficient or required duplication of work. Second, role descriptions in some schools were unclear, resulting in low-impact usage of time.

An example of the first type of inefficiency was found in payroll processing. Because most schools are accessing the payroll database during the same 2-3 days each month, the system becomes very slow in processing individual payroll entries. One observer noted that it took a staff member nearly 2 hours to complete 10 entries, which could have been completed in less than half the time with the system running at normal speed.

In terms of unclear roles, at a school with a high level of staffing per pupil, responsibilities by role were not documented while observed classroom support staff spent up to 80% of the day chaperoning and disciplining children (necessity of discipline to be determined). Paraprofessionals spent up to 30 minutes chaperoning students to the bathroom potentially impacting student time on task. At a school with a lower level of staffing per pupil, responsibilities for each role were more clearly documented while observed paraprofessionals spent only 20% of their day on student discipline and chaperoning.

ADDITIONAL THOUGHTS

Salary is often a key tool for districts to attract superior talent and/or build internal capabilities. Before seeking to lower salaries, the district should explore how this would impact its ability to attract and retain talent. In addition, these savings would likely be limited to new staff as they are hired.

If the district does continue to offer relatively high salaries, it will likely want to institute a strong performance management system, ensuring that MPS is receiving good value for the premium that it pays. Elements of performance management are discussed in Chapter 3 of this report.

There is also significant work to be done prior to capturing savings in school administration. Any initiative aimed at reducing spending in this area should identify time-intensive processes (e.g., payroll; student records), capture best practices for these processes, and eliminate nonessential activities and reports. Consideration should be given to how (and if) school leaders will be held accountable for improved efficiencies given the decentralized nature of MPS. In addition, MPS should assess which activities are best handled centrally vs. in the schools. Although observations were limited to the schools, the study's findings suggest that some tasks may be more efficiently performed at the central office. These tasks include enrollment/student transfer paperwork, student cumulative folder management, transportation management, and payroll.

Several other studies have also identified the issue of district decentralization as an issue impacting the district. For example, a 2006 report from the Council of Great City Schools cited the issue of decentralization versus more standardization as "one of the most substantial challenges facing the district." The study further stated that "…in the process of decentralizing, it [the district] did not define which decisions were best left to the district and which were appropriately delegated to the schools. Instead, each school was given so much latitude in decision making that MPS has become a system of schools rather than a school system."[23]

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[23] "Raising Achievement in the Milwaukee Public Schools," Council of Great City Schools, June 2006

Benefits

In 2008 MPS spent an estimated $172 million on active employee health benefits and $41 million on retiree health benefits (OPEB) for all employees (see Figure A.19 in the appendix). Of this, non-instructional employees accounted for approximately $64 million of active employee health benefit expenditures and approximately $15 million of retiree benefit expenditures.

Although the review focused only on non-instructional employees, the findings in this area may shed light on potential parallel options in instructional benefit spending. However, a comparable thorough analysis of instructional benefit expenditures will be required to confirm additional savings. This should be coupled with an assessment of how changes in benefits might affect the district's ability to attract and retain high-quality instructional staff.

Rising healthcare costs were found to be the largest driver of increased expenses within MPS. This trend is expected to continue. The total OPEB liability was $2.6 billion in FY08 and is expected to reach $3.8 billion by FY13. The yearly pay-as-you-go retiree contribution is projected to nearly double to ~ $96 million by FY13. Any attempt to address non-instructional cost savings therefore must take into account this significant and growing source of expenditures.

Potential savings: $23 million -$43 million could be saved through encouraging employees to adopt the lowest cost benefit package for MPS, aligning plan costs to national benchmarks, and aligning eligibility with national benchmarks.

Reducing benefit spend for active employees

a) Shifting employees to the existing lower-cost package ($8 – 16 million)

Currently, MPS offers two health care packages to employees (both active and retired): an Aetna PPO and a United HealthCare HMO (Appendix Figure A.20). The benefits and services are similar, with two exceptions: the HMO has a slightly lower deductible and co-insurance rate, while the PPO provides out-of-network benefits. On average, the PPO plan costs $18,500 per employee per year, 62 percent more than HMO plan, which costs $11,400.

An estimated 60 percent of non-instructional employees opt for the PPO plan. The ratio of employees opting for the PPO varies by function: for example, only 33 percent of food service workers opt for the PPO, while 65 percent of central administration employees do. One way in which MPS could save money would be to encourage employees to adopt the lower-cost package (the HMO) either through changes in union contracts (e.g., MPS will only pay the premium amount for the cheaper option, and the employee must cover the gap) or through incentives to employees (e.g., $500 in cash for choosing the HMO). It is estimated that this move alone could free up to $16 million (25 percent) of active health care spending (Figure 2.23).

Other public agencies, including the City of Milwaukee and the State of Wisconsin, have found similar ways to drive employees toward lower-cost options. City employees, for instance, are required to pay 12 percent of the premium if they opt for the PPO rather than the HMO.

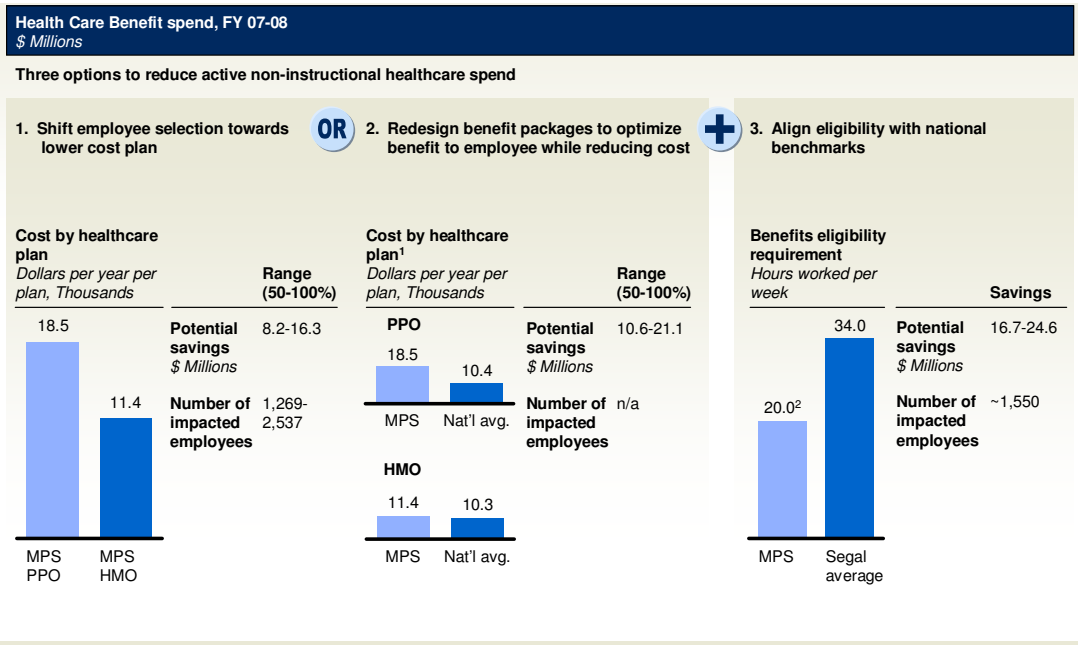
b) Redesigning benefits packages to better meet employee needs and reduce costs ($11 – 21 million)

While it is important to draw attention to the difference in pricing between existing PPO and HMO packages, it is equally important to assess both MPS packages against those provided by comparable institutions. Benchmarking against national averages indicates that MPS prices for

both the PPO and the HMO are higher than average. The MPS PPO costs ~78 percent more than the average PPO, while the MPS HMO costs ~11 percent more than the average (Figure 2.23).

Figure 2.23

Active employee health care benefits and options



1 Food Services example
2 Central office does not include itinerant District-wide teachers and substitute teachers
Note: High savings = High end of Lever #3 + 100% of Lever #2, Low Savings = Low end o f Lever #3 + 50% of Lever #1
Source: MPS HR; Kaiser Benchmarks

Two hypotheses may explain the gap between MPS and national benchmarks: MPS could be offering more expensive services and provisions than is standard, or MPS costs for delivered services could be high. Comparisons of benefit provisions in MPS packages relative to benchmarks suggest that they are at least partly responsible for higher MPS costs per plan.

Benchmarks from a survey conducted by the Segal Company indicate the degree to which Milwaukee is unique in the level of benefits offered to employees[24]. MPS HMO and PPO plan provisions (including deductibles, out-of-pocket expenses and coinsurance rates) were more extensive than for almost any other survey respondent; MPS offered the most extensive benefit in four of ten PPO provisions and four of five HMO provisions examined (Figures A.15-A.18). Of respondents reporting employee contribution levels, only one other respondent offered a PPO plan with no employee contribution while only four reported offering an HMO/EPO plan free of

[24] "Milwaukee Public Schools Analysis of Fringe Benefits Survey", The Segal Company, September 2008

charge. MPS was the only employer in the survey offering more than one plan free of charge (A.16).

If MPS redesigned its benefits package to match national averages, preliminary estimates suggest up to $21 million (~33 percent) in active health care savings (Figure 2.24). Before pursuing this option, MPS should seek to understand employee preferences and how much they value various design choices. A thoughtful redesign could result in similar higher employee satisfaction at a decreased cost.

c) Aligning MPS eligibility standards for health benefits with comparable benchmarks ($17 – 25 million)

Currently, MPS requires that employees work a minimum of 20 hours per week to receive full active health care benefits, compared with an average 34 hours per week for comparable institutions. Boosting eligibility to 34 hours would save MPS up to $25 million per year, most of which is incremental to any plan redesign efforts. However, this decision also implies reduction of eligibility for ~1,550 non-instructional staff.

Figure 2.24

Health care benchmarks

- **Segal Report (issued Nov 08) benchmarks MPS benefits to 33 like organizations (identified by MPS)**
- **Findings suggest that MPS provides higher quality, higher cost fringe options for employees on all dimensions**

Topic	MPS FS Fact base	Segal Benchmark	Kaiser National Benchmark
Health Care Eligibility			
• Working Hours	• 20 hrs/week	• 34.2 hours (mean), 35 hours (median)	
• Dependent Eligibility	• Up to age 25, no student requirement	• Up to are 23, with ½ requiring student eligibility	• Up to 25
Health Care Plans			
• Deductible	• No deductible (HMO)	• Avg. deductible of $300 for HMO plans	• $503 for HMO
• Out of Pocket Max	• ~$300 (HMO)	• ~$3000 (HMO)	• ~$2000 individual, $4000 family
• Lifetime Max	• Indexed to MCPI, increasing every yr	• No automatic increases each yr	
• Co-Pay	• $50 (PPO)	• $88 (PPO)	• $15 (PPO)
• Prescriptions	• Emp. Co-Ins 10%, ~$15 mail orders	• Emp. Co-Ins ~25%, ~$40 mail orders	• Emp. Co-Ins ~21-38%, ~$10-46 mail orders
• Dental	• 100% up front , no deductible/max	• Avg deductible of $50, max of $1300	
• Vision	• Carved out from medical	• Bundled with medical	
Pensions	• Avg. contribution 14% of payroll • Offers a second pension in addition	• Avg. contribution 9.9% of payroll • No second pension option available	• Avg. contribution 4.6% of payroll
Sick pay	• 145 days at full pay, unlimited at half day pay	• 120 days at full pay, none at half day	
Retiree health	• Avg. contribution of $728/mo/retiree	• Avg. contribution of $412/mo/retiree	• Avg. contribution of $810/mo/retiree

Source: MPS data and interviews, SNA, Segal, Kaiser Health benefits

MPS could retain ~70 percent of these savings, while continuing to subsidize health care for these individuals by moving to a low-cost plan that covers their basic health care needs. For example, BadgerCare Plus is Wisconsin's Medicaid plan providing health care benefits to the low-income individuals, families, and children throughout the state. The plan currently covers more than 100,000 individuals in Milwaukee County alone. Because of the plan's design and

negotiating clout with providers, health care costs associated with the program are significantly lower than those paid by private and public employers. Costs per plan are $4,614 per employee, 70 percent lower than the average cost per MPS plan.

Currently, there is a monthly income limit of ~$1,700 for individuals and ~$3,500 for a family of four in order to qualify for the Medicaid program. However, preliminary estimates suggest that up to 90 percent of MPS employees that would lose eligibility by moving to a 34 hour per week requirement may already qualify for BadgerCare, assuming no other family job outside MPS. The implication is that no major legislative changes would be necessary to shift most of these employees to BadgerCare Plus. This move would also require no federal, state, or local funding, because MPS would pick up the remaining costs and still retain $17 million in annual savings.

Four significant changes in provisions between the Medicaid and MPS plans are worth noting here:

- BadgerCare Plus is an HMO; patients would be limited to a specific set of providers to receive care. Currently, 44 percent of the employees that would lose eligibility opt for an HMO; in other words, the move to an HMO would impact the 56 percent of employees now covered by a PPO.
- BadgerCare Plus is primarily a co-pay plan, meaning that there is no deductible, but co-pays are generally higher per visit that on the MPS plans.
- BadgerCare Plus requires a monthly contribution from individuals (~$130) or families (~$260 for family of four). MPS employees currently pay no contribution.
- BadgerCare Plus covers only generic drugs at the full 100 percent and provides moderate discounts for branded drugs, unlike the current plans which cover 90 percent of branded drug costs.

Modifying retiree benefits

As illustrated in Figure 2.25, MPS has three options to modify retiree eligibility for health benefits and achieve cost savings against the $2.6B OPEB liability.

a) Shifting retirees to existing lowest-cost package

This option, which is similar to the initiative to rein in active employee health care costs, could result in up to $1 million in savings. On average, the PPO plan costs $9,100 per retiree per year, 20 percent more than HMO plan, which costs $7,600 per year. And, an estimated 79 percent of retirees opt for the PPO plan. This initiative should be targeted to pre-Medicare retirees as the cost differential is most significant for this group: the PPO costs over 60 percent more than the HMO, and 68 percent of pre-Medicare retirees opt for the PPO.

b) Redesigning benefits packages to better meet employee needs and reduce costs

Again, this lever is similar to that for active employee health care benefits. By implementing a holistic benefit redesign initiative, MPS could achieve $5 million (~33 percent) in retiree pay-as-you-go savings.

Figure 2.25

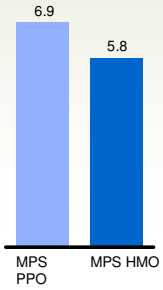
Retiree health care benefits and options

Benefit spend, FY 07-08
$ Millions

Three options to reduce active non-instructional pay-as-you-go OPEB

1. Shift employee selection towards lower cost plan

MPS Cost by plan
Dollars per year per retiree, thousands



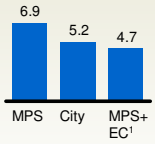
Potential savings *$ Millions* 1.6

Number of impacted employees 1,716

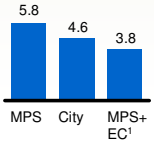
OR

2. Align MPS retiree package costs with city benchmarks

PPO Cost per retiree
Thousands of dollars per year



HMO Cost per retiree



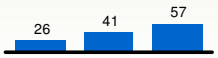
	Range
Potential savings *$ Millions*	3.1 -4.0
Potential Savings *$Millions*	1.0 -1.4
	4.1 – 5.4

+

3. Implement initiative to extend retirement age of employees

Options (Not Additive)	# of years to achieve 100% savings
A Eliminate pre-Medicare benefits after 5 years	15
B Eliminate post-Medicare benefits after 5 years	30
C Eliminate all post-retirement benefits after 5 years (A&B)	30
D Eliminate post-retirement benefits for all new hires	45+

Projected Non-Instructional OPEB cost[2]
$ Millions



	FY 09	FY 14	FY 18
Potential savings *$ Millions; percent* A	–	1.7 (4)	10.0 (18)
B	–	1.0 (3)	5.7 (10)
C	–	2.7 (6)	15.8 (28)
D	–	–	–

1 MPS Cost structure plus City Employee Contribution rules
2 Estimated by Gabriel Roeder Smith & Co., Actuarial analysis required to estimate savings accurately
Note: Retiree Instructional / Non-Instructional split estimated using ratios for active benefits
Source: MPS HR; McKinsey analysis; Gabriel Roeder Smith & Co.

c) Reducing eligibility for retiree benefits

Controlling OPEB liability costs over the long term will likely require some curtailing of eligibility for retiree benefits. Four broad options are discussed below, although many more exist. Any consideration of these levers should take into account the potential impact on the ability of retirees to pay for and receive adequate health care, as well as any potential effects on recruitment and retention of high quality employees.

i) Eliminate pre-Medicare benefits for retirees (implemented 5 years from now). This option addresses the pre-Medicare pay-as-you-go costs directly (currently ~$6.3 million for analyzed expenditures). Estimates suggest that if implemented in 5 years (to allow potential retirees to plan for change), 100 percent of this annual cost could be saved within 10-15 years. The implication of this option would be that employees retiring before age 65 would have to self-fund health care, maintain insurance from a spouse's plan for a period of time, or delay retirement.

ii) Eliminate post-Medicare benefits for retirees (implemented 5 years from now). This option addresses the post-Medicare pay-as-you-go costs directly (currently ~$9.0 million for analyzed expenditures). Estimates suggest that if implemented in 5 years, most of the savings would be captured within 25 years. This option would mean that Medicare is retirees' sole insurance past the age of 65.

iii) Eliminate pre- and post-Medicare benefits for retirees (implemented 5 years from now). This option addresses total pay-as-you-go spending (~$15.3 million for analyzed expenditures). Estimates suggest that if implemented in 5 years, the majority of these costs could be saved within 25 years. The implications of both previous options are relevant for this option.

iv) Eliminate retiree health care benefits for new hires (implemented immediately). This option addresses total pay-as-you-go spending, but does not accrue savings until new hires retire (e.g., 15+ years from today). This option protects eligibility for all current MPS employees, but it could lessen the value of working at MPS for new hires (as would option iii). It also implies that MPS can afford to incur OPEB liability at current rates for at least the 15-30 years.

Summary of savings

The three options for modifying retiree benefits could yield $23 – 43 million in annual savings by FY13 ($22 – 38 million on active spending and $1 – 5 million on retiree spending):

1. Shift employees to existing lowest-cost package: $8.2 – 16.3 million in annual active savings, $1.6 million in annual retiree savings by FY13

   OR

2. Redesign benefits packages to better meet employee needs and provide lower cost to MPS: $10.6 – 21.1 million in annual active savings, $4.1 – 5.4 million in retiree savings by FY13

   PLUS

3. Align MPS eligibility standards with comparable benchmarks: $16.7 – 24.6 million in active savings, no retiree savings by FY13

Because these three options are not additive, two “packages” of likely options are laid out to reflect potential low- and high-end total savings.

Package #1: MPS enacts Option #1 and Option #3 and achieves low-end savings under both = $22 million in active savings and $1 million in retiree savings

Package #2: MPS enacts Option #2 and Option #3 and achieves high-end savings under both = $38 million in active savings and $5 million in retiree savings

ADDITIONAL THOUGHTS

The following considerations should be addressed prior to implementing non-instructional health care benefit savings options.

First, each of the potential options listed above comes with a specific set of risks, including damage to employee morale, reduced ability to attract talent, and reduced employee access to health care. Each of these factors must be balanced against the potential savings.

Second, success in implementing any of the options will require enhanced communication by the district to MPS employees. MPS should have a deep understanding of employee preferences and needs as a first step in benefit package redesign.

Finally, there are two important notes regarding health care benchmarks.

First, national benchmarks were used in comparing MPS costs per plan. Research indicates that health costs in southeast Wisconsin (including Milwaukee) were as much as 27 percent

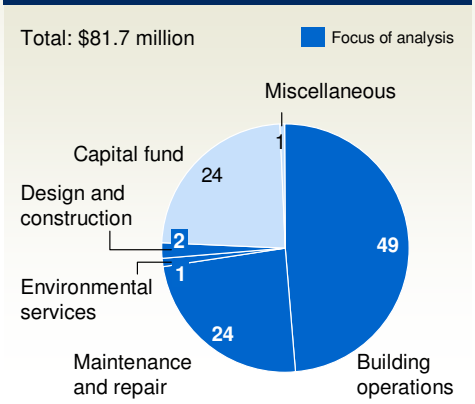
higher than national averages in 2001[25] but only 12 percent higher for a standard PPO plan in 2006[26]. Online quotes for PPO plans in the Milwaukee area were found to be on average 2-5 percent higher than quotes in ~30 major national cities, adding further evidence that the gap in health care cost in the Milwaukee area may be closing relative to historical costs (Appendix Figure A.21).

Additionally, MPS health plans were benchmarked against both City of Milwaukee and State of Wisconsin plans (Appendix Figures A.22-24). Preliminary analyses suggest that provisions and costs per plan on active benefits are slightly higher for the City of Milwaukee and State of Wisconsin than for MPS[27]. However, on the retiree side, MPS could accrue savings by adopting the city's employee contribution level. Current estimates indicate that MPS retirees contribute only 19-29 percent of their health care costs, while the city requires retirees contribute 43-49

Figure 2.26

Overview of facilities and maintenance expenditures and savings levers

Total facilities & maintenance spend
Percent of total, FY 2008



Savings levers

	Potential savings *$ Millions* Low	High
1 Align pay with benchmarks		
A Reduce benefit spend	2.2	4.5
B Adjust salaries	0.5	1.2
2 Improve labor efficiency		
A Adopt new staffing model	0.3	0.5
B Implement tactical changes	2.8	4.4
3 Optimize value of facilities	6.2	12.0
Total	**12.0**	**22.6**
Savings as percent of spend	**14.9**	**27.7**
Sale of unused facilities (less cost of consolidation)	**(0.9)**	**24.3**

Source: MPS

percent. This finding contributes directly to the $5.4 million in potential savings for retiree health.

25 "Milwaukee health care spending compared to other metropolitan areas", United States General Accountability Office, 2004

26 "2006 Group Health Insurance Survey", Milliman, Inc, 2006

27 Relative total costs for the city and state are lower than for individual plans as the PPO plan employee contributions drive a higher percentage of employees to the lower cost HMO plans; relative ratios of family plans may also differ between the city, state and district

Alternatively, MPS could adopt a retiree model similar to that of the state, under which health care is paid for primarily through banked sick days. This effectively limits the state's liability for payment and provides incentives for employees to utilize sick days more efficiently and proactively plan for health care in retirement.

Maintenance and facilities

MPS spent $81.7 million in facilities and maintenance in FY2008 (Figure 2.26). About $40 million went to the Building Operations Department, which includes janitorial staff, boiler attendants, and engineers, while $20 million went to the Maintenance and Repair Department, which includes skilled workers such as plumbers, electricians and carpenters. The team did not examine capital expenditures, as any savings in that area are likely not to be transferable to school operations.

Potential savings: $12-23 million in annual potential savings is estimated in maintenance and facilities operations, as shown in Figure 2.26. The savings options fall into three broad categories: aligning pay with benchmarks, increasing labor efficiency, and optimizing the value of facilities.

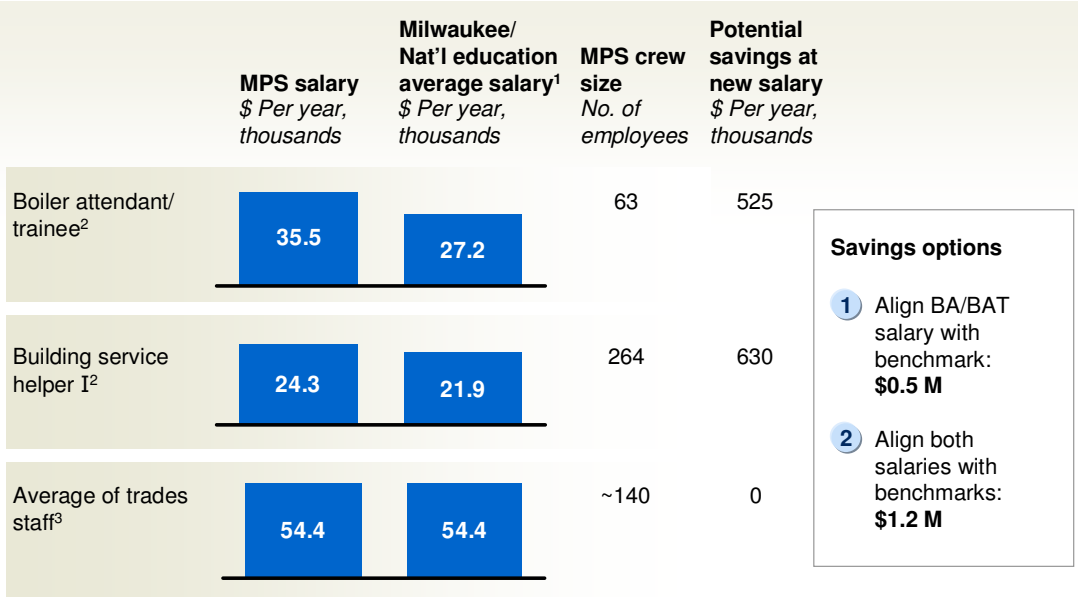
Aligning pay with benchmarks

a) Reducing benefit spending

Please refer to the earlier discussion of benefits in this chapter.

Figure 2.27

Facilities and maintenance salary benchmarks



1 Available benchmarks include: Milwaukee all-industry, national all-industry, and national education (elementary & secondary schools). Milw. education benchmark estimated by increasing Milw. all-industry benchmarks by same percentage as nat'l all-industry is higher than nat'l education benchmarks (approx 11%)
2 MPS data for custodial staff is from Jan 1, 2008, approximately 7 months after benchmark; Boiler attendant/ trainee salary is weighted average
3 Average of carpenter, electrician, laborer, painter, bricklayer, elevator constr., insulator, locksmith, machinery maint, plasterer, plumber, roofer, sheet metal, and steamfitter; Supervisors, chargemen, or foremen are not included

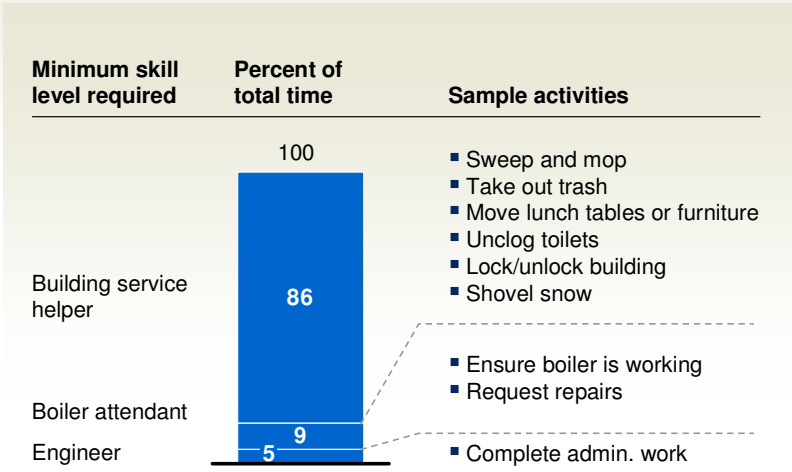
Source: US Bureau of Labor Statistics, May 2007; MPS FY07 Budget

b) Reducing salaries ($0.5 – 1.2 million)

Figure 2.27 compares MPS salaries for major job categories in facilities and maintenance to relevant benchmarks. The team benchmarked salaries for boiler attendants/trainees and level-I building service helpers using data for similar jobs from the United States Bureau of Labor Statistics. Milwaukee wage benchmarks for the corresponding job codes were adjusted upward to account for the higher national wage rate in education relative to national "all-industry" averages. This adjustment inflated the benchmark by ~11 percent and may make the benchmark conservative. MPS' trade workers fall under prevailing wage laws by contract and therefore are in line with wages for similar workers in the Milwaukee area. Aligning boiler attendants/trainee salaries with national benchmarks would save about $0.5 million dollars, while aligning building service helper salaries with benchmarks would save another $0.6 million.

Figure 2.28

Engineer distribution of work



Source: MPS observations

Increasing labor efficiency

a) Realign boiler engineer responsibilities and staffing ($0.3 – 0.5 million).

Current policy dictates that a boiler engineer be staffed full-time at every facility, in addition to a number of boiler attendants and building service helpers (depending on the size of the building). Engineers make up to $57,000 per year, while boiler attendants make up to $38,000 and service helpers make between $25,000 and $35,000.

Given that initial discussions suggested significant overlap in daily activities despite large differences in salary, the project team worked with MPS staff to define the activities that could be completed by personnel in each of the various roles. Engineers were shadowed over the course of three school days at three different locations to estimate how much of their day they spent on activities that could be performed by either a boiler attendant or a building service helper. Figure 2.28 shows that 86 percent of the observed time was spent on activities that could have been performed by a building service helper, including mopping floors, taking out the trash, and shoveling snow. An additional 9 percent of time was spent on activities that could be performed by a boiler attendant.

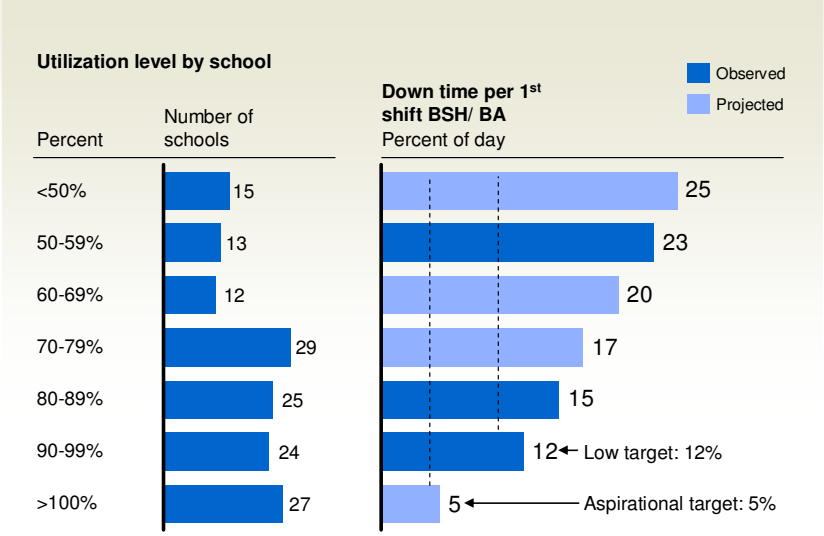
Based on this information, alternative staffing models were developed that would allow boiler engineers to oversee a cluster of 10-15 schools while assigning local responsibilities to either a boiler attendant or a building service helper. Savings from implementation of such a model are estimated at $0.3-0.5 million annually (Appendix Figure A.25).

b) Change custodial staffing model ($1.6 – 2.8 million)

Allocation of first-shift building operations staff is currently done on a per-square-foot basis, independent of building utilization (e.g., student enrollment / student capacity).

Figure 2.29

Building operations staffing and down-time



Source: MPS observations

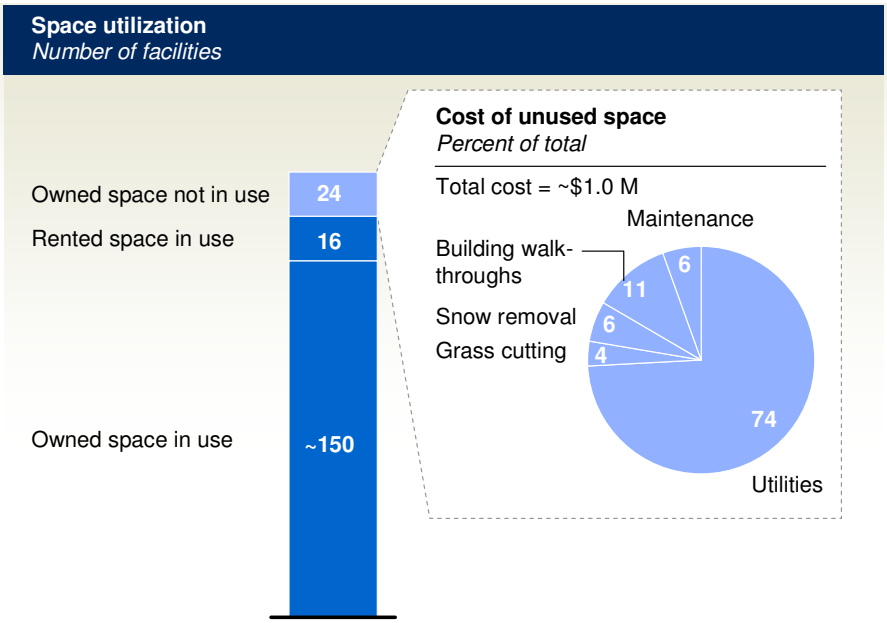
Observations of first-shift employees (building service helpers and boiler attendants) suggest that the amount of down-time in a day correlates with building utilization: The less utilized a building, the more down-time a building service helper or boiler attendant is likely to have (Figure

2.29). At the approximately 40 schools that are less than 70 percent utilized, more than 20 percent of the day may be idle time. Reducing staff hours of first-shift employees to achieve 5-12 percent idle time would save $60,000 to $120,000 annually.

Similarly, second- and third-shift workers (custodial staff who work after school hours) are assigned using a staffing model based on square feet and not on utilization. Adjusting this model to account for utilization could save much more: $1.6-2.7 million annually.

Figure 2.30

Cost of unused space



Interviews and school observations suggest that schools with low utilization rates (again, low enrollment relative to capacity) find other ways to use the surplus space. Some classrooms, for instance, have been converted to parent centers and teacher offices. Capturing the full savings above may require schools to close off sections of the building, thereby reducing the amount of space to be cleaned, but also reducing potentially valuable alternative uses of the space. Schools could also find a way to attract more students to increase their utilization (a prospect which has been challenging for many schools).

c) Amend employee sick policy and provision for substitute engineers ($1.1 – 1.6 million)

In interviews, school building staff reported high absenteeism rates for building operations staff. As absenteeism rates for these employees are not tracked electronically, the team reviewed paper reports for 10 randomly selected days throughout the year. Approximately 15 percent of employees were absent on average during the period reviewed – 6 percent due to illness and the remaining 9 percent for other allowable reasons (e.g., vacation, funerals, injury); this equates

to about five weeks of absence during a typical school year. National benchmarks suggest that these rates may be unusually high: nationwide, building and ground workers are absent due to illness or injury less than 3 percent of the time.[28]

Sick policy for building operations employees indicates that no action is taken until "eight instances of sick leave in a one-year period" has been reached. Each instance can last up to three days without confirmation from a doctor or other health professional.

To cover for absent employees, MPS hires 45 full-time substitute employees. Salaries and benefits for these substitutes cost $2.5 million annually. Reduction of sick-leave absences by 50 percent would result in a need for only 26 substitute positions while maintaining the same service level; this would yield annual savings of $1.1 million. A 75 percent reduction would bring the need for substitutes down to 17 – a savings of $1.6 million annually (Appendix Figure A.26).

MPS should analyze other types of absences including vacation time, funerals, and injury leave. However, as vacation time varies significantly throughout the year, MPS would need to implement better data-tracking systems to capture this information in an ongoing and thorough manner.

In addition, it should be noted that sick leave usage was explored in this area at the suggestion of MPS staff. Sick leave usage was not explored for other categories of non-instructional employees. If consideration is given to changing these policies, a district-wide analysis of sick leave usage and policy should be undertaken.

Optimizing use of facilities

a) Sell closed facilities (up to $7 million upon sale plus $1 million annually)

MPS spends approximately $1 million annually to maintain 24 unused facilities. Nearly 75 percent of this cost is due to utilities: buildings must be heated in the winters to prevent pipes from breaking. Sale of these facilities could net up to $7 million based on an average estimated assessed property value of $176,000/acre. As the city assessor's office does not assess the value of school facilities directly, city assessments made in January 2008 for the value of all parcels immediately surrounding each location were used to make estimates.[29] To be conservative, assessed values were discounted by 20 percent to account for the potential reduction in property values since that time, and the natural imprecision of using assessments to establish value when selling property. In addition to the one-time sale of the facilities, MPS would save $1 million annually in utility and maintenance costs.

Should the facilities need to be demolished before selling, the demolition costs would approximately match the value of the property, leading to a minimal return to MPS (or a slight one-time loss). Annual savings of $1 million would still be achieved due to the eliminated utilities and maintenance costs.

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[28] US Census, 2008 Current Population Survey

[29] http://itmdapps.ci.mil.wi.us/MyMHome/

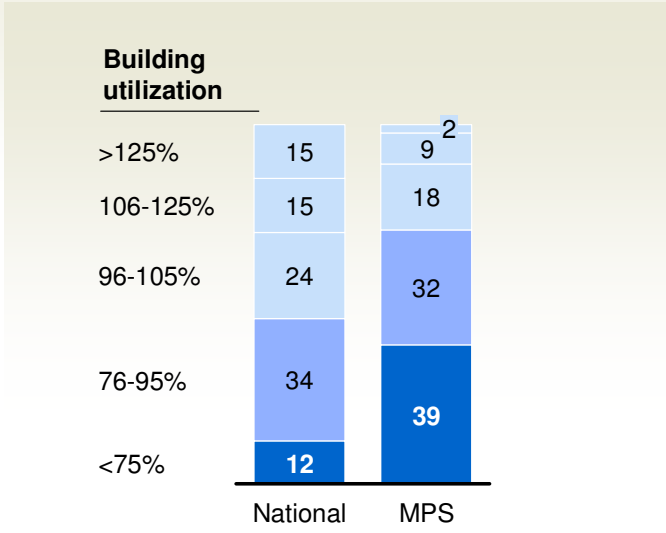
b) Consolidate underutilized buildings ($5.2 – 11.0 million annually; one-time impact from renovation and building sale of -$0.5 – 17.7 million)

MPS estimates that school enrollments are, on average, at 80 percent of building capacity (Appendix Figure A.27). 39 percent of MPS schools are utilized less than 75 percent compared with 12 percent of schools nationwide, according to a report by the National Center for Education Statistics (Figure 2.31).[30] Over 10 percent of MPS schools are utilized at less than 50 percent student capacity.

Figure 2.31

School building utilization rates

Percent of schools



http://nces.ed.gov/pubs2007/2007007.pdf

Source: National Center for Education Statistics: *Public School Principals Report on Their School Facilities*, Fall 2005

On a positive note, only 2 percent of MPS facilities are over 125 percent capacity compared with 15 percent nationwide. While overcrowding may have a negative impact on student outcomes, underutilized facilities may drain financial resources that could otherwise be directed into the classroom. Non-instructional costs for utilities, school building administration, and facilities/repair costs may be higher on a per-student basis in an underutilized building.

Consolidating facilities can help increase utilization and may result in significant savings, although some of these savings would be offset by increased transportation costs. The team

[30] National Center for Education Statistics, *Public School Principals Report on their School Facilities,* Fall 2005.

developed low and high estimates of total annual savings from consolidating facilities based on the following assumptions:

- 50-75 percent of school office and food services personnel in each closed school would be retained.
- For building operations staff, new staffing models for boiler attendants and custodial staff would already be implemented to avoid double counting of savings.
- For the high-end estimate, maintenance and repair costs of $68,000 per facility per year would be eliminated; the low-end estimate deducts $45,000 per building for the annual upkeep cost of newly closed buildings (if they are not sold).
- Low and high ranges both assume that all school principals, teachers, and health staff are retained.
- Transportation costs would increase: 70 percent of students in closed schools would need transportation (MPS average) and transportation costs would increase by $905 annually per student (the estimated cost difference between transporting a student less than 6 miles away to greater than 6 miles away) This is a conservative estimate as school consolidations would not likely result in distance changes of this magnitude. Further, this methodology does not take into account potential bus route consolidation which may, in fact, decrease transportation costs.

To determine the one-time impact due to building sales, moving, and renovations, we made the following assumptions:

- Estimated market value was based on the Milwaukee average assessed value by the city assessor's office in January 2008 ($176,000/acre), discounted 20 percent to be conservative given the uncertainties of the real estate market and recent declines in the value of real estate.
- The low-end number assumes that buildings must be demolished ($19 per square foot) while high-end assumes no demolition
- Moving and renovation costs were based on past MPS experience over the previous 3 years. Moving costs per building were estimated at $40,000, while renovation costs per building varied from $90,000 to $360,000.

Based on the above assumptions, we estimate that moving all schools below 73 percent utilization to 73 percent utilization (the average utilization rate of all schools that are not over capacity) would result in $3.9-5.8 million in annual savings and up to $5.8 million in one-time revenue (a small one-time loss of $0.5 million is also possible should the facilities need to be demolished prior to sale of the lot (Appendix Figure A.28).

More aggressive consolidation – moving all schools up to at least 88 percent utilization, the 75th percentile for MPS facilities – would result in an estimated $5.9-9.7 million in annual savings and a one-time impact ranging from positive $9.7 million to a loss of -$0.8 million due to sale, demolition, and required renovations.

Consolidating so that all facilities were at least 73 percent or 88 percent utilized would boost average utilization rates 86 percent and 94 percent, respectively, from 80 percent currently (all figures excluding currently closed facilities). While methodologies for computing utilization vary, this level is similar to the rates in New York City, where 2008 utilization ranged from 84 to 91 percent.[31]

Declining enrollment may exacerbate the problem of underutilized facilities and protect against overcrowding in the case of school consolidations. As noted earlier in this report, enrollment has declined on average 2.4 percent over the past 5 years. Should enrollment decline even at the estimated rate of 1.7 percent annually over the next 5 years (internal MPS estimate based on changes in grade-level enrollment patterns), average enrollment would drop from 80 percent to less than 75 percent district-wide by FY13.

ADDITIONAL THOUGHTS

Capturing these savings would come with clear challenges. As school consolidations could have significant impact on instruction, it should be emphasized that, as with all options presented in this report, school consolidations are an option that would need to be pursued thoughtfully to avoid overcrowding. In a choice environment, MPS officials would need to ensure transparency in their process, and consider parent and pubic opinion. The quality of schools should also factor into such decisions. While school consolidation may result in non-instructional savings, the impact on academic outcomes may be significant (potentially for better and worse). The intent in this report is simply to estimate the potential non-instructional savings of such a change.

Many of the savings discussed here would also have an impact on employees. Reduction in salaries for building service helpers and boiler attendants and changes to sick policies to reduce absenteeism could impact both employee satisfaction and MPS' ability to fill vacant positions. School consolidations and changes to staffing models could result in layoffs. Given the degree of MPS' financial challenges, school leaders may face difficult decisions between non-instructional employees and instructional programs.

Finally, timing of any potential sales of facilities – and the income realized from those sales – will be significantly influenced by the state of the real estate market.

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31 http://source.nycsca.org/pdf/bluebook/2008/BB_07-08.pdf

CHAPTER 3

Potential Action Plan

MPS faces significant academic challenges at the same time that the district is under significant financial strain. Given these realities, MPS and the larger community must make several important decisions. Step one is to choose which savings options are worth pursuing and to execute those changes in an efficient manner. To sustain any savings over time, MPS will need a robust performance management system, including a culture and processes that reinforce desired behaviors. Last but not least, MPS needs to identify what, if any, changes in instructional strategies and operations it might undertake. This chapter describes each of these potential actions.

LAUNCH OPERATIONAL TRANSFORMATION PROGRAM

To capture the savings outlined in Chapter 2, MPS and its stakeholders should consider organizing potential savings opportunities into five major initiatives, overseen by a project management office to drive implementation and track progress. In addition, to successfully implement and sustain these changes, a robust performance management system should be put into place.

Pursue five major initiatives

Organizations implementing significant reforms often find it most effective to organize and implement reforms around the skill sets required to drive them. The savings opportunities discussed in Chapter 2 can be organized into five major initiatives, each of which combines similar actions from different non-operational functions. For instance, the purchasing transformation initiative would look at procurement of both general supplies and food supplies. These initiatives and their potential savings impact are described below and summarized in Figure 3.1.

Figure 3.1

Five potential initiatives

Potential initiatives[1]	Description	Potential impact *$ Millions*
1 **Purchasing transformation**	▪ Right product, right spec, lowest price, right quantity, right vendor	10-15
2 **Lean operations/ efficiency**	▪ Right number of people, right skills, right activities	11-16
3 **Facilities optimization**	▪ Maximize utilization of facilities while minimizing cost of unused facilities	6-12 (*up to 24 from sale*)
4 **Transportation optimization**	▪ Manage demand and vendor costs while maintaining service	7-14
5 **Benefits program redesign**	▪ Maximize value to the employee at the lowest cost	23-43 (*OPEB: 1-5*)
	▪ Other[1]	1-3
	Total	**58-103**

1 Other initiatives include increasing meal participation for profitable students ($0.7-1.5 MM), and aligning salaries to benchmarks for building service helpers/boiler attendants ($0.5-1.2 MM)

Purchasing transformation ($10-15 million)

Purchasing in categories such as general supplies, food supplies, IT equipment, and textbooks could be optimized through focused, short-term, data-driven efforts to reduce costs. These efforts could include consolidation of spending, reduction of stock-keeping units (SKUs), and improved management of the central purchasing function. For example, one component of this initiative could focus on increasing use of MPS' primary office supply contract and negotiating better terms. Figure 3.2 below lays out the major components of this initiative and the key strategies for attaining savings.

Lean operations and efficiency ($11-16 million)

A lean operations and efficiency initiative could include identifying and rolling out best practices throughout MPS, and optimizing staffing levels and models in administration, food service, and maintenance and facilities. For instance, this might include full implementation of a pre-pack kitchen model to reduce costs and improve productivity. Figure 3.3 below summarizes the activities that could be undertaken and the potential savings from each. Success will depend on establishing a consistency in striving for operational excellence across all non-instructional departments in the district.

Figure 3.2

Purchasing transformation initiative

Sub-initiatives	Potential impact *$ Millions*	Key levers
Textbooks	15.5 → 12.4; $2.2-3.1 MM 14-20%	▪ Leverage entire spend in textbooks to maximize negotiation power with vendors ▪ Manage demand through cross-district inventory management and enforcement of return policies
General supplies and IT	36.3 → 30.5; $5.8-7.8 MM 16-21%	▪ Leverage entire spend in general supplies to maximize negotiation power with vendors ▪ Reduce number of SKUs for common items from 10-250 to 1-2
Food and supplies	16.8 → 13.0; $1.5-3.8 MM 9-23%	▪ Optimize menu design through smart choices regarding student nutrition and cost effectiveness ▪ Dissect drivers of price inflation with current vendors ▪ Develop robust tools to effectively manage and audit vendors on consistent basis
	Total savings:	**$10-15 MM, 14-21%**

Source: MPS; team analysis

Figure 3.3

Lean operations initiative

Sub-initiatives	Key levers	Implied labor force reduction *# of employees*	Potential impact
Facilities and maintenance *$82 MM*	▪ Minimize engineers' cleaning time (~85%) by increasing their responsibility from 1 to 10-15 schools, and by replacing them with boiler attendants ▪ Reduce custodians in under-utilized schools, currently staffed as if 100% full ▪ Reduce allowable annual sick absences (~21) by 50-75%	▪ 31-72	▪ $3.1-4.9 MM; 9-14% of $35 MM building operations labor cost
Food service/ pre-pack *$38 MM*	▪ Boost labor productivity by up to 125% by rolling out pre-pack kitchen model ▪ Uphold same high standards with regard to nutritional value	▪ 219-360 (up to 86 Managers and 274 Assts.)	▪ $2.8-4.7 MM; 26-44% of $11 MM labor cost
School building admin *$101 MM*	▪ Reduce wide variability in # of clerical FTEs/pupil in schools ▪ Establish and circulate best practices in school systems, processes, and role definition across District	▪ 125 FTEs	▪ $3.8-5.0 MM; 6-8% of $63 MM clerical, gen ed., and non-instructional parapros cost
Central admin and Centralization Decentralization	▪ Adjust salaries to average benchmark ▪ Centralize additional functions (e.g., purchasing, student records)	▪ NA	▪ ~$1 MM; ~20% of $5 MM in Director-level salary spend
	Totals:	**250-432**	**$11-16 MM** **10-14% of affected spend**

Note: Central Admin savings calculated using ERS benchmarks; Savings are conservative as benchmarks not available for middle management personnel; Full centralization savings to be determined alongside school building admin analyses

Facilities optimization ($6-12 million)

A facilities optimization initiative would include selling or consolidating selected schools and other buildings to improve utilization. Any such moves would need to be managed with consideration of parent preferences and the academic outcomes of various schools. Estimates of the potential savings from selling and consolidating schools are outlined in figure 3.4.

Figure 3.4

Facilities optimization initiative

Facilities owned by MPS[1]
Number of facilities

161

Closed 24

Under 75% utilization 53

75% or greater utilization 84

Sale of closed facilities

Sample closed facility
Garfield Elementary

Potential impact

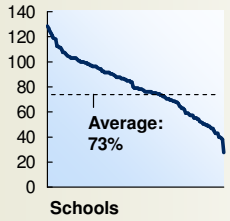
One-time impact
- Sale of closed buildings: $7.1 MM

Annual savings
- Eliminate upkeep cost: $1.0 MM

Key levers
- Sell currently closed facilities and land
- Eliminate annual maintenance cost of closed facilities

Consolidation of schools

Utilization by school
% total student desks filled



One-time impact
- Sale of surplus buildings: $0 – 17.7 MM[2]
- Moving/ renovation cost: $0.5 – 8.0 MM

Annual savings
- Operational savings: $3.9-9.7 MM
- Eliminate renting: $1.3 MM

Key levers
- Raise all schools up to average (73%) or 75th percentile (88%) utilization rate
  - Operational savings achieved by closing 12-20 schools[3]
- Move programs in rented space to owned space

Total one-time impact of $(0.9) – 24.3 MM
Total annual savings of $6.2 – 12.0 MM

1 Does not include ~13 central buildings in use
2 Estimated market value based on Milwaukee average assessed value by City Assessor's office in January 2008 ($176k/ acre), discounted 20% to today's assumed market value; low end of range assumes buildings must be demolished while high end assumes no demolition
3 Operational savings derived from building operations, utilities, maintenance & upkeep, and school office savings less expected increased cost of transportation
Source: MPS; Milwaukee City Assessor's Office, team analysis

Transportation optimization ($7-14 million)

Transportation optimization would require multiple strategic actions, some of which reach across agencies. This optimization could include the establishment of transportation regions, improved negotiation with the county transportation authority, better utilization of buses, and vendor consolidation/negotiation of more favorable terms. Figure 3.5 summarizes the potential impact of these actions both in terms of savings and number of students affected.

Benefit program redesign ($23-43 million)

Redesigning the benefits program could allow for the greatest amount of potential savings but is also perhaps the most complicated. Using tools from consumer research, this effort could involve developing a detailed understanding of the preferences among various employee segments as well as the costs of each benefit option. Benefits packages could be designed

around those preferences to maintain employee satisfaction with benefits while reducing costs. This initiative could involve negotiating with employee groups while improved vendor negotiation could also lead to savings. Figures 2.23 and 2.25 describe in detail savings that could be captured from this initiative, both from redesigning active employee benefits and retiree benefits.

Figure 3.5

Transportation optimization initiative

Sub-initiatives	Potential opportunity	Potential impact *$ Millions*	Students impacted
County bus service	▪ Negotiate a discount of 25-50% for transit bus passes ▪ Shift middle school and high school yellow bus students near country transit bus stop to country transit	1.9-3.8 0.4-0.9	NA 1,400-2,446
Mileage cap on yellow bus service	▪ Implement 6-8 mileage cap on yellow bus service to eliminate long, higher-cost bus routes ▪ Create drop-offs at points 6-8 miles from school for students who continue to go to old school	2.6-5.0	3,870-7,540
Vendor manage-ment	▪ Transform bidding and contracting processes by bidding routes in "clusters" and having stronger carrots and sticks to encourage high performance ▪ Reduce vendors from 10 to 4-5	1.0-2.7	NA
Revenue	▪ Implement a student fee of $75 to $150 for non-reduced lunch students and $45 to $75 for reduced-lunch students[1]	1.1-1.8	13,907
	Total savings:	**7-14**	
	Percent of base spend ($62 MM):	**11-23%**	

1 Requires a change to current state law
Source: MPS Transportation; team analysis

DRIVE CHANGE THROUGH PROJECT MANAGEMENT OFFICE

Once the initiatives have been agreed upon, the next crucial question is *who will be accountable for driving the change?* The success of each initiative will depend on the effectiveness of the individual or team responsible for its success. Many private and public entities seeking to transform operations have found that a project management office (PMO) is most effective in driving large-scale transformations. A PMO is a discrete, temporary organizational structure introduced into an existing system with the sole purpose of implementing transformational change in a relatively short period of time (~6 months).

PMOs typically are effective for four reasons:

- A PMO allows for clear accountability for capturing savings.
- Individuals in a PMO are dedicated (at least in part) to the project, giving them the capacity needed to drive initiatives; they should not have significant distractions associated with daily operations.

- Members of a PMO usually come from diverse perspectives (i.e., a cross-functional team) and may include external personnel seconded or "on loan" from the private sector, allowing for fresh perspectives and potential strengthening of internal capabilities.
- There is a clear, transparent time frame for implementation, which often creates a significant burst in momentum, leading to success that might not be experienced over the course of a multi-year transformation.

A PMO dedicated to driving change for MPS would likely consist of the following components, illustrated in Figure 3.6:

Steering Committee.

This entity is responsible for holding the PMO accountable over the course of implementation. It usually consists of the highest-level stakeholders who cannot be directly involved in implementation but have a significant stake in the outcome. The Steering Committee requires periodic updates from the PMO, helps to "push the thinking," and intervenes in order to eliminate or mitigate obstacles (e.g., barriers to data; connecting the team to the needed resources).

PMO leader.

This individual is ultimately accountable for the success of the program. S/he rigorously tracks the success of individual initiatives, problem-solves with initiative leaders on a consistent basis, and prepares reports for the Steering Committee. In addition, the PMO leader is responsible for creating a culture of change, emphasizing the importance of each initiative within the PMO, and providing momentum for success. This person must have a general knowledge of the context of the problems and operational excellence, but specific expertise is often less important than his/her previous record with regard to leading positive change.

Initiative Leaders.

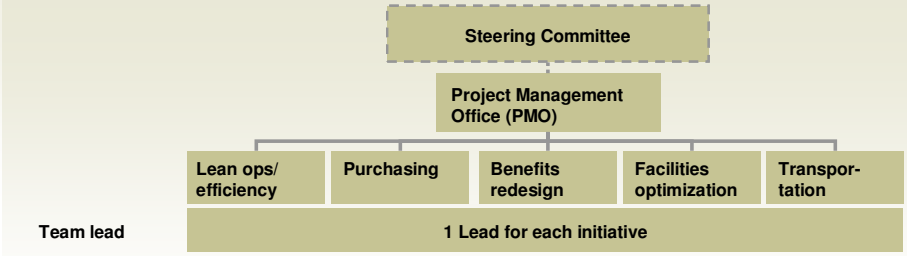
For each initiative, there needs to be one individual responsible for implementing change within the framework of current operations. In addition, initiative leaders would be responsible for building the internal capabilities of MPS so that the change "sticks" and can be replicated internally over time. This group is responsible for the daily management of initiative core team members and for tracking their individual success against the goals of the broader PMO. Leaders include the PMO leader in problem-solving efforts as required and provide regular progress updates. As mentioned previously, initiative leaders may be experts from the private sector.

These core team members are often a combination of internal and external personnel. It is important to include internal personnel who will learn new best practices and implement them into the system over time, once the PMO has wrapped up. Core team members are ultimately responsible for carrying out the tasks and analyses designated by the initiative leader. They should be among the top performers within the organization.

Depending on the complexity of the effort, each of these initiative teams is likely to run for a different amount of time.

Figure 3.6

Sample PMO structure



	Lean ops/ efficiency	Purchasing	Benefits redesign	Facilities optimization	Transpor-tation
Team lead	**1 Lead for each initiative**				
Target savings *$ Millions*	11-16	10-15	23-48	6-12 (*up to 24 from sale)*	7-14
Structure	3 initiatives ▪ Admin. ▪ Food serv. ▪ Maint.	4 waves ▪ Textbooks ▪ Transp. ▪ Supplies/IT ▪ Food serv.	1 team	1 team	1 team
Months of effort	6	4-6	6	18	4
FTEs	2-3 per initiative ▪ Frontline managers ▪ HR	3-4 per wave ▪ Purchasing ▪ End-users	4-6 ▪ HR/benefits ▪ State benefit expert ▪ Finance	2 ▪ Facilities ▪ CFO's office	2-3 ▪ Transp. ▪ Finance

IMPLEMENT ROBUST PERFORMANCE MANAGEMENT SYSTEM

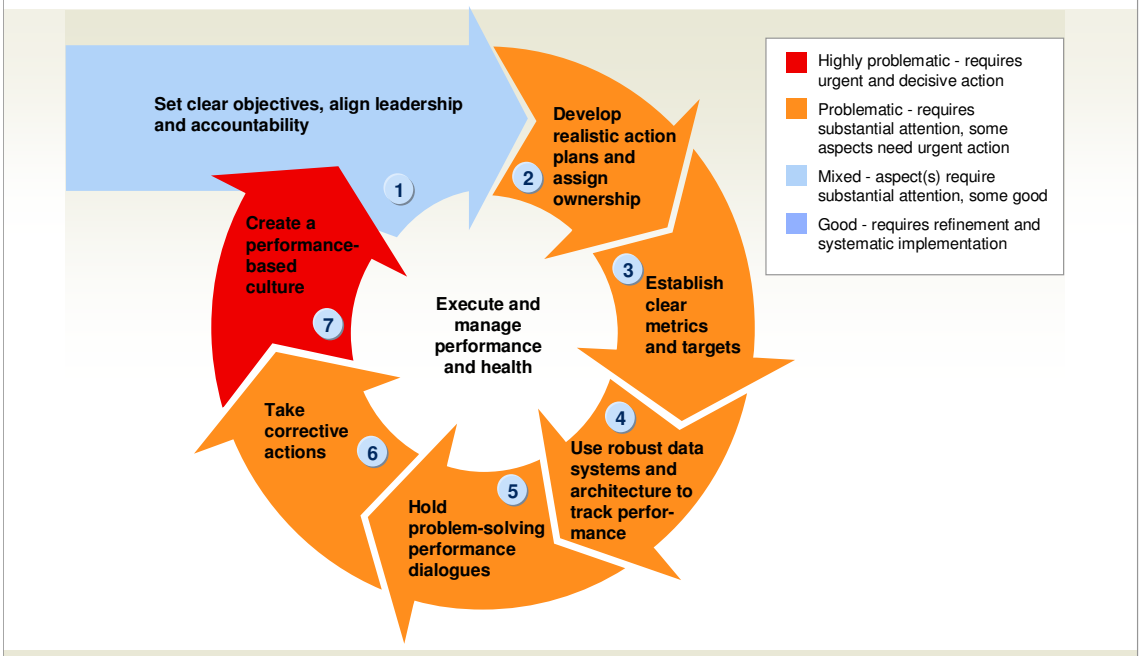
Robust performance management is a core part of driving and sustaining significant changes in operations. Without it, gains from initiatives may not be achieved or may be reversed quickly.

Figure 3.7 shows seven critical elements of a performance management and the team's assessment of MPS' capabilities in each area. To arrive at these assessments, 20 MPS employees in various operational roles were interviewed, ranging from upper management to analysts and other front-line employees. Responses were then used to score MPS against the best practices observed in other districts and sectors. This assessment reflects performance management in non-instructional operations only and does not cover teachers or other instructional staff.

MPS did not score well in any of the seven areas. Across all elements, scores were generally highest in the upper areas of management and lowest among front-line employees, indicating a lack of alignment across the organization.

Figure 3.7

Overview of MPS performance management diagnostic



Source: Team analysis

Four elements scored especially poorly. Sample comments include the following:

Weak performance-based culture

- A Director received three performance reviews in past 22 years; each review lasted 10 minutes.
- "I focus on implementing initiatives. I shouldn't have to tell my employees how to do routine work." – Senior Operations Manager
- A request for employee recognition was denied by his/her supervisor: "I shouldn't reward my employees for doing their job."
- There is no visible sign of focus on performance in offices (e.g., no dashboards or metrics)

Incomplete metrics and target

- "Metrics are defined by what we have to report externally. We don't have a lot of good metrics for internal performance." – Manager
- Programs are launched without targets: "Sometimes we throw a penny in the pond and see what comes back." – Analyst

Poor data structure and quality

- More than two-thirds of purchasing order is data stored in paper receipts.
- Student data is stored on two different systems with misaligned numbers.
- Building operations data is collected on blackboards.

Limited problem-solving dialogues

- "We never address the root causes. The same problems come up every year, and we fix them when they come up." – Analyst
- "We don't really have performance reviews. We have update meetings." – Analyst

While this review focused on non-instructional areas, its performance management findings reinforce other recent reports and efforts focused predominantly on instruction. For example, a 2006 report by the Council of Great City Schools found that MPS has become a "system of schools," rather than a school system, due to decentralization. As part of this shift, the report cited that MPS Central Administration *"has delegated responsibility for improving student achievement to individual schools, in effect saying 'You figure it out.' The result is not only marginal gains in student achievement but also a marginalized central office that has little to no role in shaping where the district is going instructionally."* [32]
Among other things, the report recommended that MPS implement the following recommendations [33], consistent with a robust performance management system described above:

- Articulate a clearer sense of urgency and high expectations supported by the board, superintendent, and all district staff members, and develop a process to ensure that progress is being made in meeting explicit district goals.
- Shift the district's current culture of satisfaction with slow, incremental increases in achievement to one that fosters more rapid gains.
- Demonstrate commitment to higher student achievement measures and the implementation of district initiatives into evaluations of senior staff members, principals, literacy coaches, and at-will employees.
- Develop a data reporting system that provides schools with the data they need to inform decision-making, and establish a 3-5 year plan to evaluate major programs and initiatives, including the impact they have on student achievement.

The African American Education Council, a diverse group of Milwaukee area elected officials, educators, community leaders, and business leaders, cited similar challenges with performance management in a recent report. [34] The report suggests that "new initiatives are promoted without a thorough examination of whether past initiatives have failed or succeeded" and recommends, among other things, that the district should re-centralize the budget process so principals can better focus on academic achievement.

The "Working Together, Achieving More Accountability and Support Group" (ASG), comprised of elected officials, business and academic leaders, and other community stakeholders, was formed in November 2007 with the support of the Greater Milwaukee Committee to serve as a set of "critical friends" whose purpose is to monitor the progress of the district's strategic plan,

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[32] "Raising Achievement in the Milwaukee Public Schools," Council of Great City Schools, June 2006

[33] IBID

[34] African American Education Council report, 2007

issued in July 2007. The ASG recently found that "it is apparent that a more focused system of pressure and support is required to speed the implementation of the plan so that it actually results in improved student learning for every student at every school".[35]

As efforts to implement the district's strategic plan enter a second full year, the ASG is refocusing its partnership efforts to "create a relentless culture of performance and accountability" in MPS, including, among other things, establishment of a "well facilitated, functioning strategy/senior leadership team" and development of "a wide range of reports and dashboards for specific stakeholders to review and assess progress against developed benchmarks."

Many of the challenges identified through this review and others have not gone unrecognized by MPS leadership. Improvements to MPS' performance management system have been initiated. However, this review indicates that MPS has been capable of launching initiatives in the past, but struggles to implement them and sustain change. Given the current state of the district's financial and academic health, a robust and sustained effort must be maintained in order to instill the performance culture that is needed to implement change.

Furthermore, effective performance management systems are as much about the performance culture, reinforcement mechanisms and the tone/effectiveness of performance reviews as they are about defining processes and metrics. As reforms are implemented to MPS' performance management system, it is strongly recommended that MPS learn from best-in-class systems, while investing in an effort to improve the quality of the implementation.

CONDUCT ACADEMIC DIAGNOSTIC

This work did not include an assessment of MPS' instructional system or strategic direction. Several stakeholders referenced the district strategy recently developed in conjunction with community groups, business leaders, and local unions. Given the critical nature of a strong instructional system and strategy, it may be worth reviewing MPS' strategic plan in light of the magnitude of the district's financial challenges, potential increases in federal categorical aid, and current opportunities for competitive federal funding.

Such a review, if truly comprehensive, would examine the drivers of academic performance, including teaching and learning (school leaders, teachers, students, and parents), the system's expectations and accountabilities for schools, teachers, and students, and the supports provided to the schools (Figure 3.8).

A thorough review, combined with the already agreed upon strategic direction, could result in a powerful set of new instructional initiatives to dramatically improve student achievement.

Instructional operations were also not examined in this project. Improvements to instructional operations could be important both as a lever for improving academic outcomes and as a means

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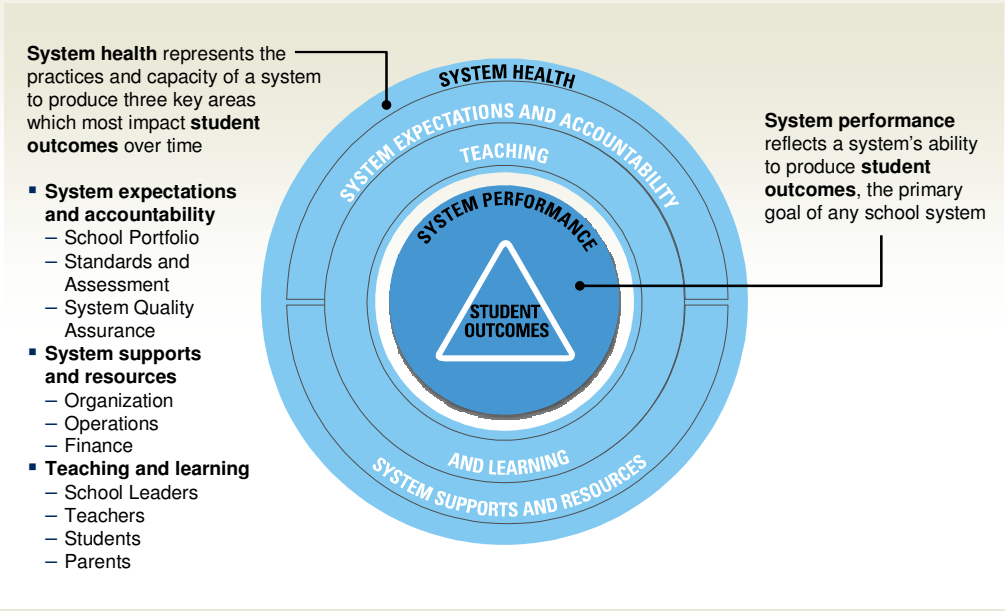
35 "Working Together Achieving More: Accelerating the Implementation", Working Together Achieving More Accountability and Support Group, November 2008

for identifying savings that could be reinvested in effective instructional programs and reforms. An instructional operations diagnostic would include an examination of MPS' program management and evaluation functions, a mapping of programs against needs and costs, benefit redesign for instructional staff, school schedule optimization, and the institutionalization of instructional performance management.

Figure 3.8

Elements of a comprehensive school system diagnostic



Source: Team analysis

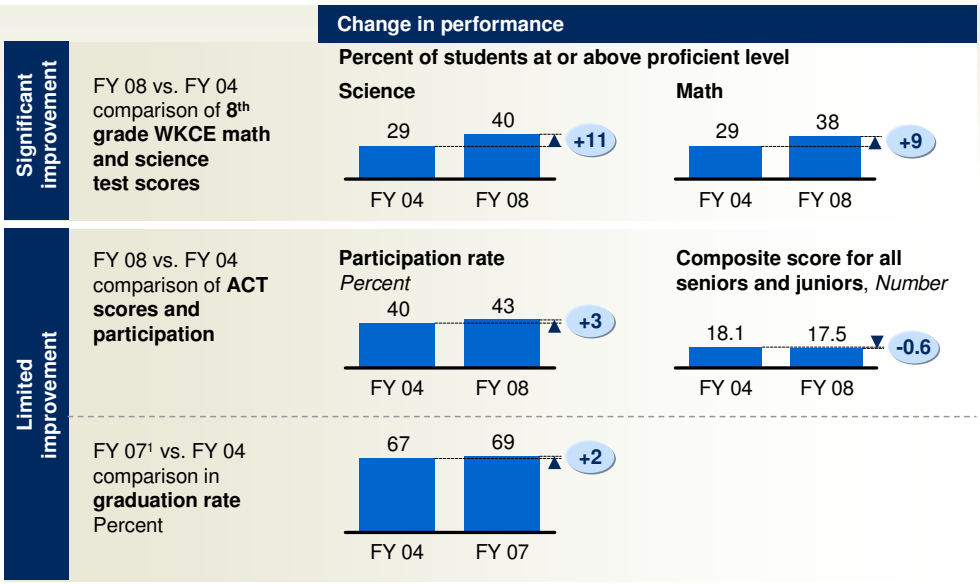
* * *

While MPS faces significant financial and academic challenges, there are options available to address them. It is our hope that the information contained in this report provides the foundation to inform discussion and the critical decisions which must follow.

Appendix

Figure A.0

MPS Improvement across three metrics

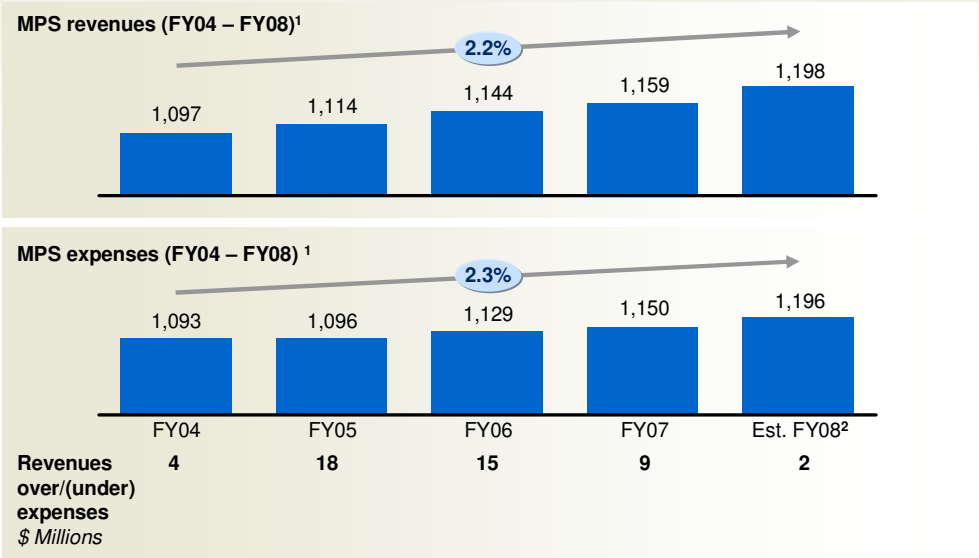


1 Most recent graduation rate data is for FY07
Source: MPS FY 07-08 District Report Card; DPI

Figure A.1

MPS' historical budget

Revenues and expenses, $ Millions



1 Data taken from DPI 4-year comparative revenue and expenses data
2 FY08 data is unaudited and represents preliminary perspective for analysis
Source: DPI, MPS FY04-08 State Annual Reports

Figure A.2

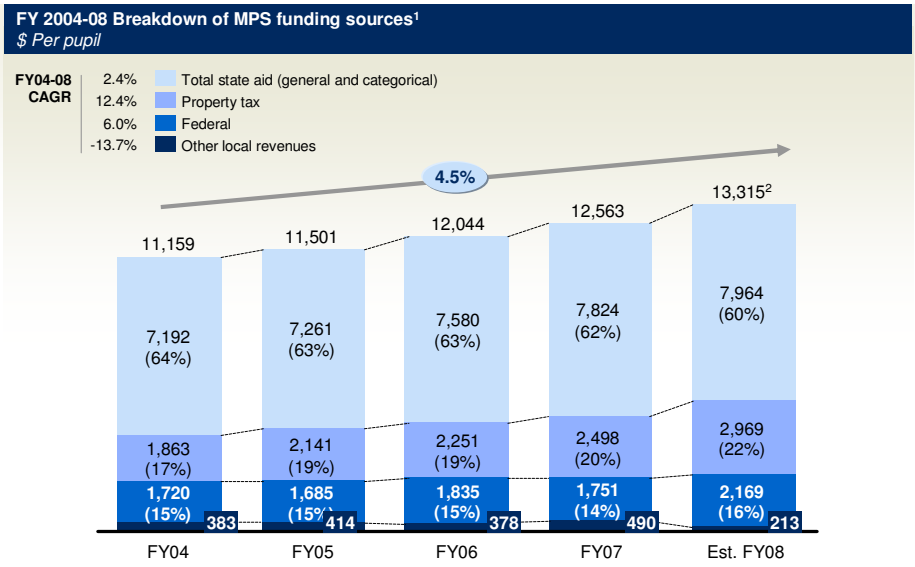
Expenditures per student

District[1]	Enrollment	Expenditures per student	% free-reduced free lunch	% special needs (IEP)
NEW YORK CITY PUBLIC SCHOOLS	1,014,058	18,327	71.6%	14.4%
PHILADELPHIA CITY SD	184,560	14,130	70.8%	13.2%
LOS ANGELES UNIFIED	727,319	12,565	76.9%	11.5%
MILWAUKEE	**92,395**	**12,468**	**72.4%**	**17.8%**
DETROIT CITY SCHOOL DISTRICT	133,255	12,262	73.1%	14.2%
BALTIMORE CITY PUBLIC SCHOOLS	87,643	12,253	70.9%	16.9%
DENVER COUNTY 1	72,312	11,736	65.0%	11.9%
DADE COUNTY SCHOOL DISTRICT	362,070	10,752	61.2%	11.8%
CITY OF CHICAGO SD 299	420,982	10,583	74.2%	12.8%
MEMPHIS CITY SCHOOL DISTRICT	120,275	8,495	73.4%	12.6%
Other districts				
Cleveland	58.8	14,681	82.0%	19.0%
Minneapolis	38.5	15,163	67.0%	15.0%

1 50 largest school districts by 2005-2006 enrollment with a reported 60-80% of enrolled students eligible for free-and-reduced lunch and 10-25% of students with an individualized education plan (IEP)
Source: National Center for Education Statistics

Figure A.3

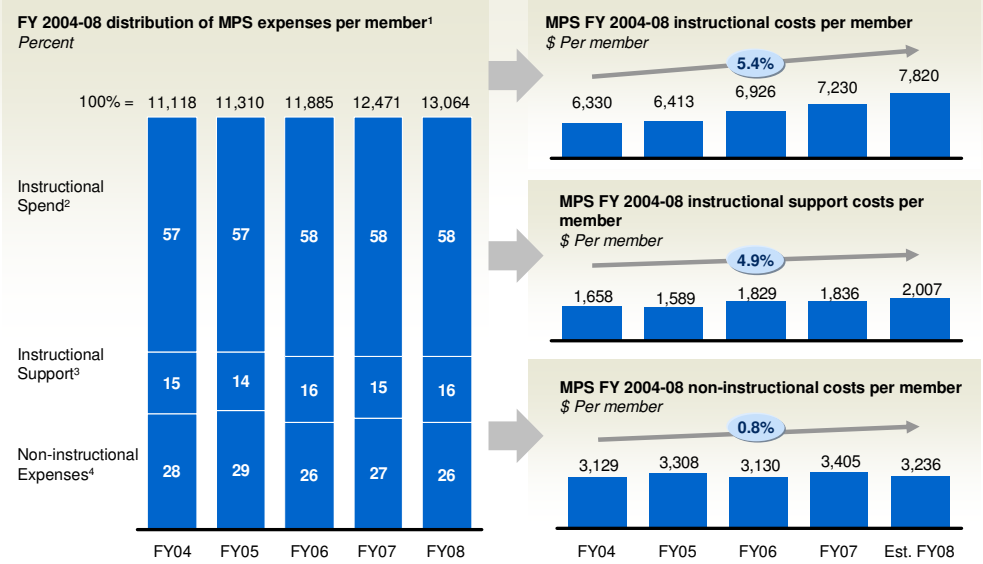
MPS revenues per student



1 Revenues and expenses exclude interfund transfers and other financing proceeds; FY04-07 data taken from DPI 4-year comparative financial data; FY08 data is unaudited and represents preliminary perspective for analysis
2 < 1% difference with revenue reported of $13,442 from overview; difference likely due to classification of funds
Source: DPI

Figure A.4

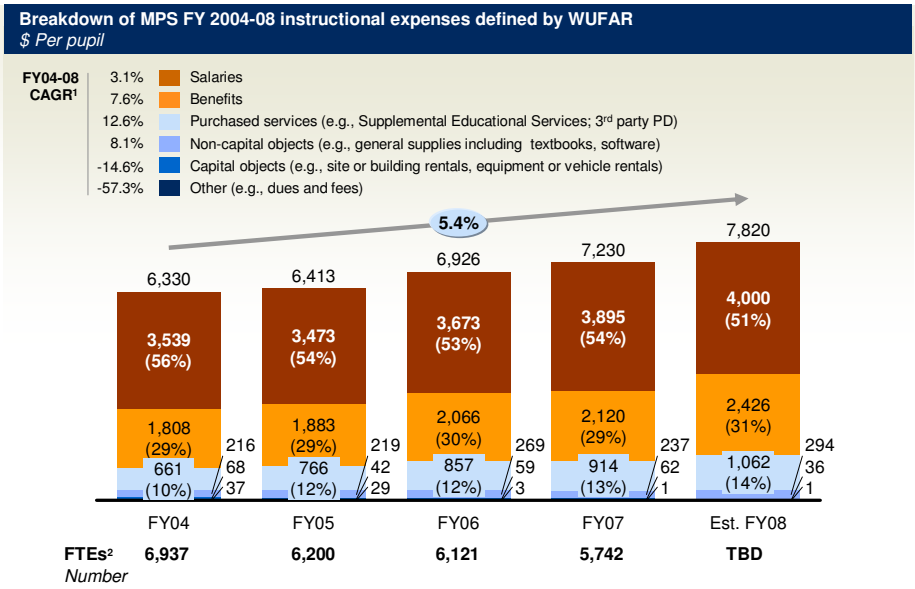
MPS trends in expenditures by expenditure type



1 For purposes of trend, debt along with refinancing, revenue transits to others, fiduciary expenses, adjustments and refunds excluded from cost analysis
2 Instructional spend includes all face-to-face instructional-related costs (e.g., teacher salaries/benefits, classroom supplies, etc)
3 Instructional support spend includes pupil services (e.g., guidance, library media, health), school building administration, staff training and support
4 Non-instructional spend includes transportation, operation, administration, facilities, food, and community service spend
Source: DPI

Figure A.5

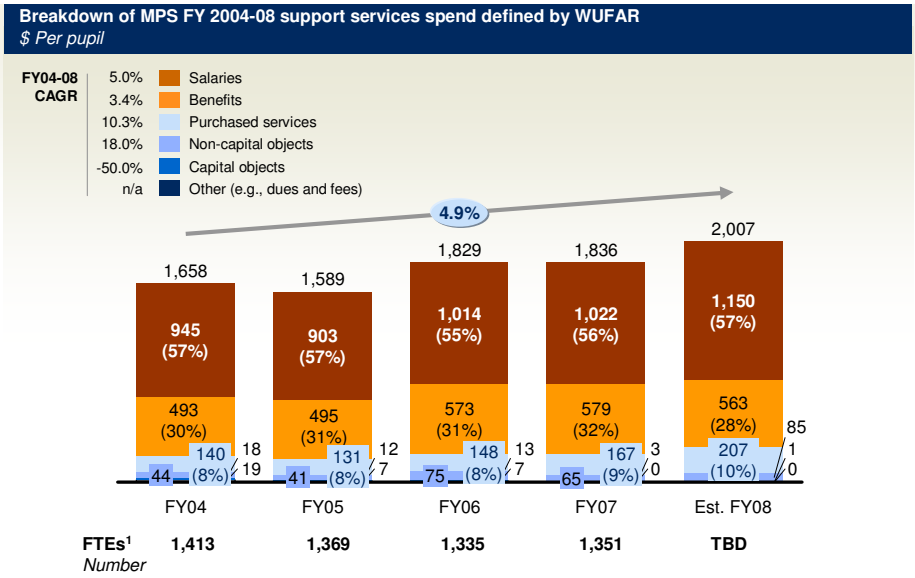
MPS instructional expenses



1 CAGR: Compound Annual Growth Rate; CAFR: Comprehensive Annual Financial Report
2 Number of FTEs (taken from MPS FY07 CAFR) includes teachers; FY08 CAFR still in progress
Source: FY 2004-08 MPS State Annual Report (PI-1505)

Figure A.6

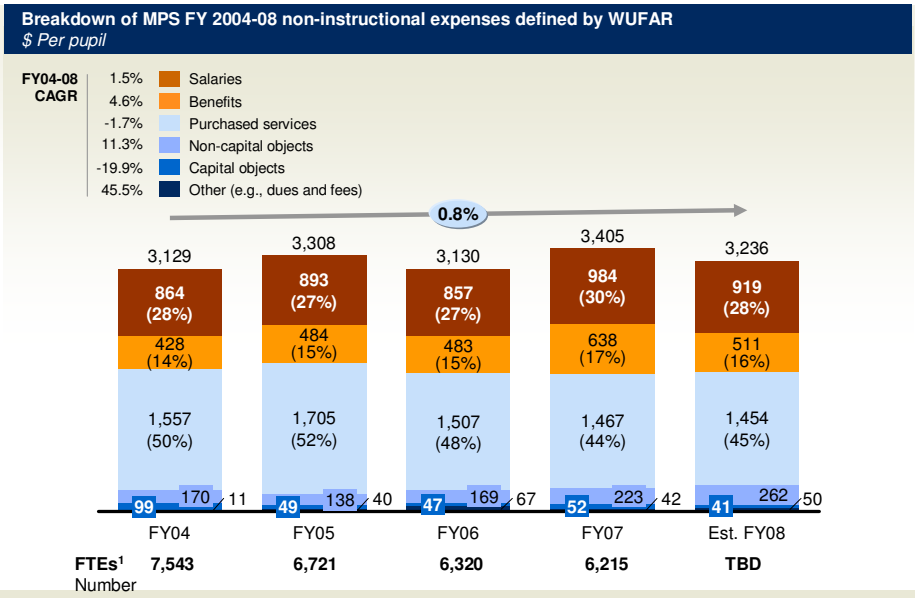
MPS instructional support expenses



1 Number of FTEs (taken from MPS FY07 CAFR) includes student service workers, professional staff, teacher aides; FY08 CAFR still in progress
Source: FY 2004-08 MPS State Annual Report (PI-1505)

Figure A.7

MPS non-instructional expenses



1 Number of FTEs (taken from MPS FY07 CAFR) includes clerical, service, craft workers (skilled), laborers (unskilled), all other part time workers; FY08 CAFR still in progress
Source: FY 2004-08 MPS State Annual Report (PI-1505)

Figure A.8

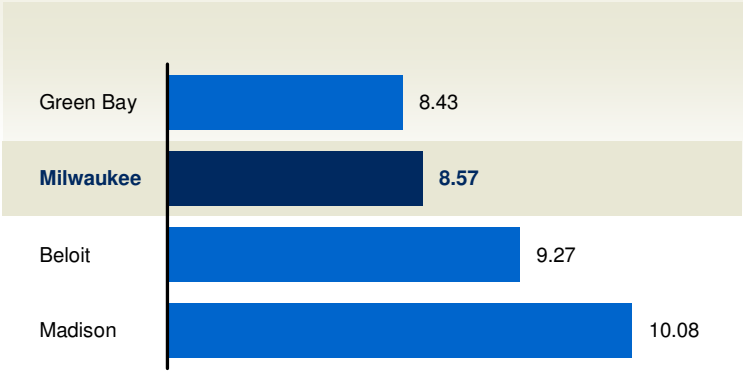
Textbook benchmarks

ISBN	Title	MPS price *$ Per unit*	Benchmark price *$ Per unit*	% savings	Order size *Dollars*
131340913	Spanish Realidades	61.47	56.45 (HISD)	8%	180,414
75727242	Early Childhood Express – Classroom Package	2389.95	1799.97 (AR)	25%	19,120
26848929	Language for Thinking –Workbook 5 pack	56.13	52.38 (AR)	7%	16,109
26746557	Language for Learning – Workbook 5 pack	30.78	29.94 (SC)	3%	7,079
75691213	Reading Mastery Plus	33.60	31.20 (SC)	7%	3,494
78285763	Sociology and You	69.99	61.50 (FL)	12%	2,800
1404500154	Pre-K Classroom Kit	1317.48	1139.90 (UT)	13%	2,635
785422129	Pearson World History	59.99	39.99 (SC)	33%	2,460
130236381	Algebra	49.99	39.95 (SC)	20%	2,250
382365763	Making Music	63.80	67.00 (SC)	-5%	1,914
785425527	Everyday Life Skills	49.99	38.99 (SC)	22%	1,750
785435433	Algebra 2	49.99	38.99 (SC)	22%	1,500
130233137	Basic English	49.99	39.95 (SC)	20%	1,000
785436359	Earth Science	49.99	38.99 (SC)	22%	750
785429522	Basic Math Skills	49.99	38.99 (SC)	22%	600
785429433	Consumer Mathematics	49.99	38.99 (SC)	22%	500
785430741	World of Work	49.99	38.99 (SC)	22%	500
130244104	US History	59.99	43.95 (SC)	27%	300
130236179	American Government	49.99	39.95 (SC)	20%	250
130236411	Algebra -- Workbook	24.99	11.95 (SC)	52%	100
785429360	Life Skills Math -- Workbook	24.99	10.99 (SC)	56%	50
			Average savings	**20%**	

Source: MPS; Textbook management sites for the State of South Carolina, Houston Independent School District, Florida School Book Depository, State of Utah, and State or Arkansas

Figure A.9

Mill rate by District – FY 08

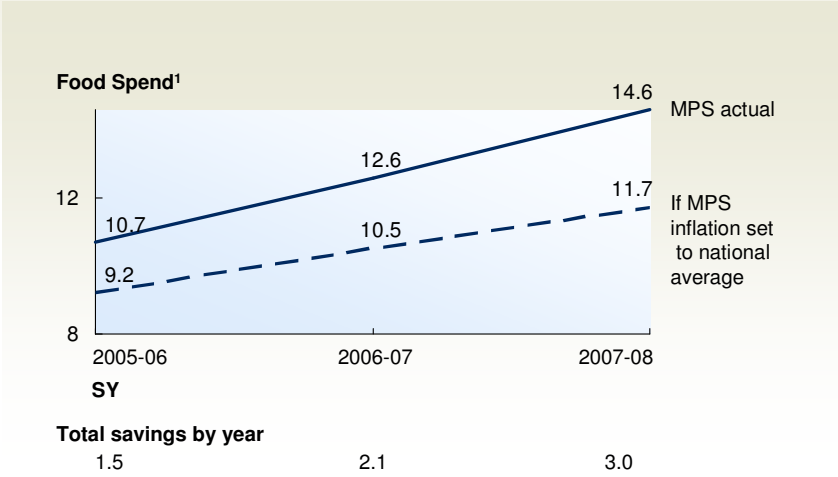


Source: DPI; Team analysis

Figure A.10

Assessment of dollars saved if MPS price inflation moved to national average

$ Millions



1 Food and catering supplies only; Does not include delivery/storage fees or any other supplies, capital equipment, uniforms etc that would tie it to the $16.8 MM figure from the state

Source: USDA, CPI, MPS Expenditure Reports

Figure A.11

Savings from lower-cost food and supplies substitutes

Sample savings from substituting for lower cost options of food and supplies

		Current Product	Price¹ *Dollars*	New Product	Price¹ *Dollars*	Savings *Percent*
Food	1	Fresh Apples	0.09/oz	Fruit Cocktail	0.08/oz	**11**
	2	Cup cakes	0.63/ cake	Cookies	0.25/unit	**60**
Supplies	3	Wrapped Spork, Napkin, and Straw	.018/unit	Un-wrapped Spork and Napkin	.014/unit	**25**
	OR					
	4	Wrapped Spork, Napkin, and Straw	.018/unit	Wrapped Spork and Napkin (no straw)	.016/unit	**11**

- **Average 25% savings** for 3 items (5% of food spend)
- High Impact = Extrapolate across ¼ (25%) of spend = **$0.8M**
- Low Impact = Ability to capture 1/2 of high impact = **$0.4M**

1 All prices taken from grocery retail, excluding chicken patty example (use Sysco pricing for both patties and tenders)
Option #3 requires parapro monitoring

Source: USDA, CPI, MPS Expenditure Reports

Figure A.12

Profitability of MPS food service programs

Increase price/meal for paying lunch students[1]

	MPS price *dollars FY 09*	Low impact = meet national average		High impact = lunch program breaks even	
		Price increase	% increase	Price increase	% increase
Elementary	1.65	0.21	11	0.76	46
Secondary School	1.80	0.43	19	0.61	34
Total Average	**1.71**	**0.30**	**17**	**0.70**	**41**
Total Savings *$ Millions*		**0.5**		**1.1**	

Increase participation of breakfast program

	MPS part. FY09	Low impact = increase 5%		High impact = increase 10%	
		Participation increase (pp)	% inc.	Participation increase (pp)	% inc.
Free/ Reduced	39	2	5	4	10
Paying	16	1	5	2	10
Total Average	**36**	**2**	**5**	**4**	**10**
Total Savings *$ Millions*		**0.2**		**0.4**	

1 If we assume a 10% decrease in participation under the "low impact" price change, MPS receives an addition $70 K in savings; However, paying student participation actually increased (8%) after FY 09 price increases

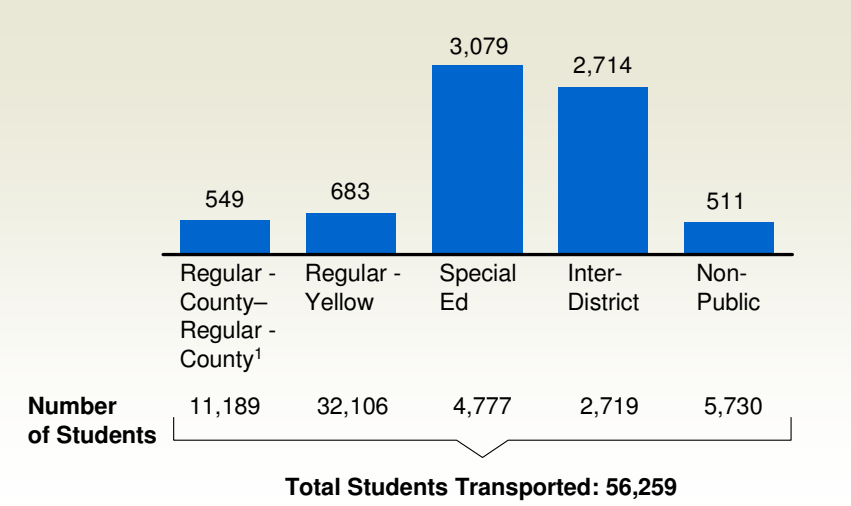
Note MPS beats/matches all best in class benchmarks for breakfast participation; 5-10% increase set as a result

Source: MPS, School Nutrition Association; team analysis

Figure A.13

Transportation costs per student – FY 07-08

$ Per pupil transported

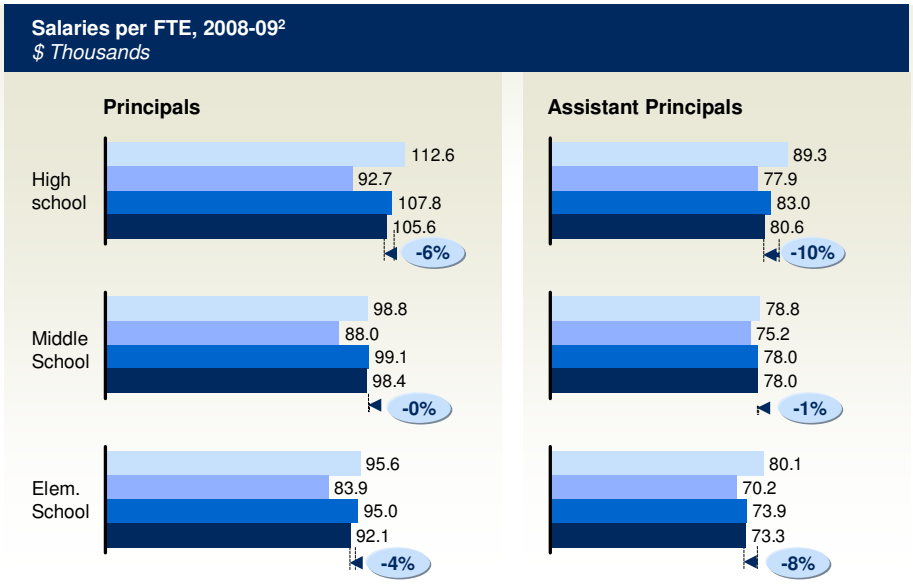


1 Estimated using FY08-9 ratio of students taking yellow transit in FY08-9

Source: MPS Functional Plan – Transportation, Pupil Transportation Services

Figure A.14

Principal and AP salary benchmarks



1 Over 25,000 students
2 Benchmark data provided for 05-06 (inflation-adjusted to 08-09)
Note: Benchmarks exclude Teacher Leaders, MPS figures include both 10 and 12 month employees
Source: Educational Research Service, MPS HR

Figure A.15

Segal Survey Respondents – Public Sector

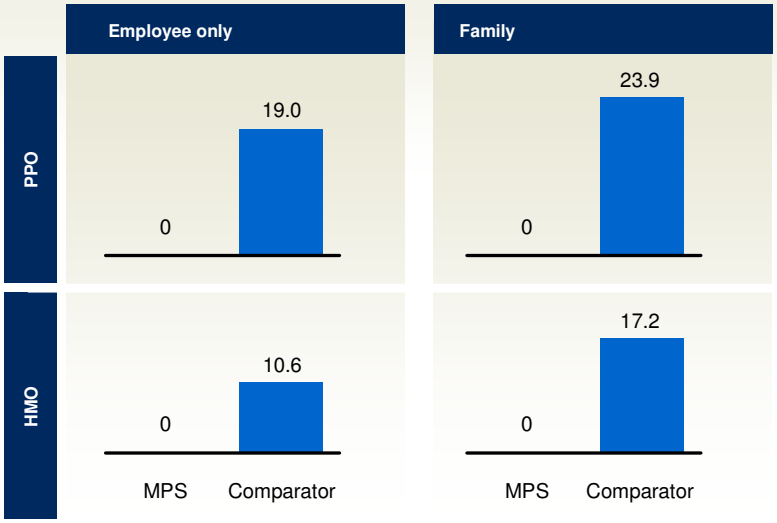
Publicly Available Data	Submitted survey
Baltimore City Public Schools	City of Chicago
Chicago Board of Education	City of Milwaukee, WI
Cleveland Metropolitan School District	Elmbrook Schools
County of Milwaukee	Green Bay Area Public Schools
Franklin Public Schools	Madison Metropolitan School District
Indianapolis Public Schools	Memphis City Schools
Kansas City, Missouri School District	Milwaukee Area Technical College (MATC)
Kenosha Unified School District	Milwaukee Public Schools
Los Angeles Unified School District	Racine Unified School District
Minneapolis Public Schools	School District of Greenfield
New Berlin Public Schools	School District of Waukesha
Oak Creek Franklin Joint School District	South Milwaukee School District
St. Louis Public School District	Tucson Unified School District
State of Wisconsin	Wauwatosa School District

Source: "Milwaukee Public Schools Analysis of Fringe Benefits Survey", Segal Company, September 2008

Figure A.16

Medical cost share

Percent of premium / premium equivalent



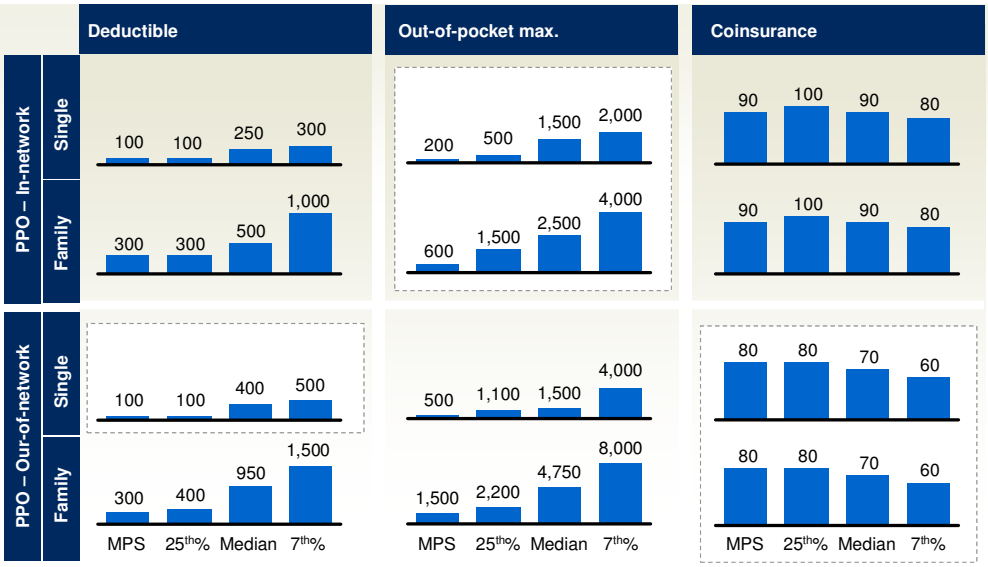
Source: "Milwaukee Public Schools Analysis of Fringe Benefits Survey", Segal Company, September 2008

Figure A.17

PPO benchmarks for active employees – Segal Survey Results

Dollars

MPS offers the most generous plan

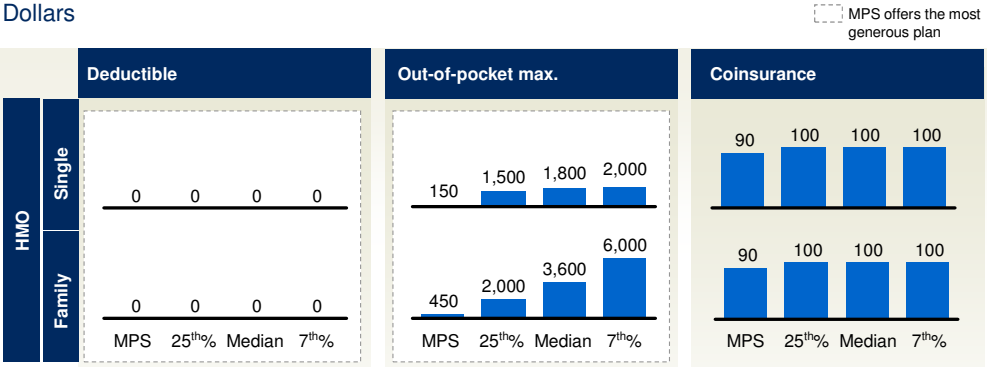


Source: "Milwaukee Public Schools Analysis of Fringe Benefits Survey", Segal Company, September 2008

Figure A.18

HMO benchmarks for active employees – Segal Survey Results

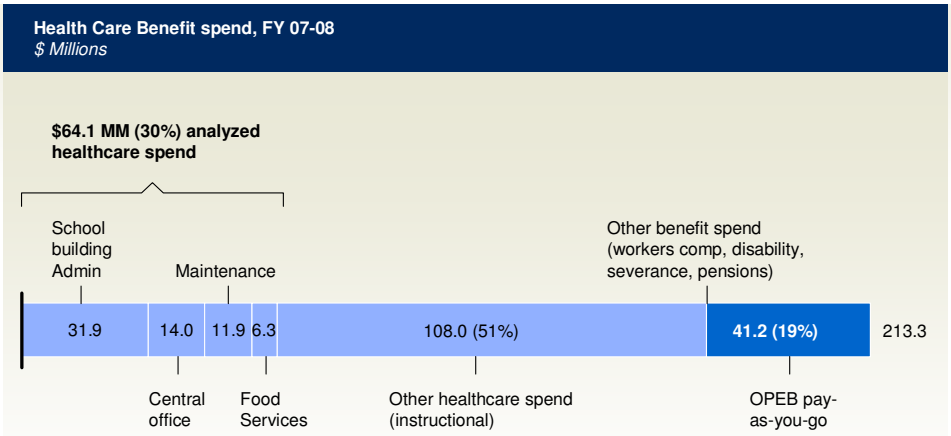
Dollars



Source: "Milwaukee Public Schools Analysis of Fringe Benefits Survey", Segal Company, September 2008

Figure A.19

Health care benefit spend



Note: High savings = High end of Lever #3 + 100% of Lever #2, Low Savings = Low end o f Lever #3 + 50% of Lever #1
Source: MPS HR; Kaiser Benchmarks

Figure A.20

Provisions of PPO and HMO plans

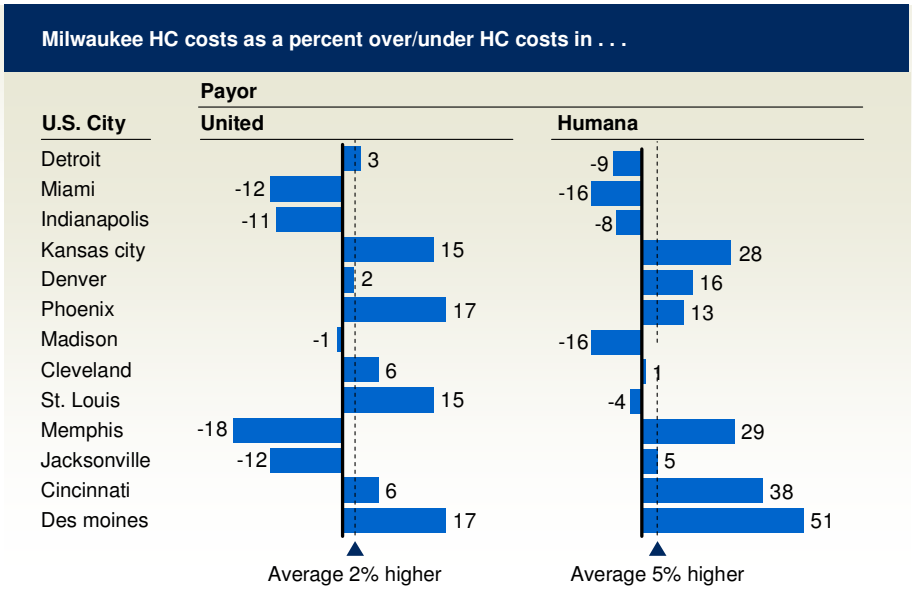
Plan feature	Provisions			
	PPO		HMO	
Annual deductible	$100 per person $300 per family		None None	
Coinsurance limit	$200 per person $600 per family		$150 per person $450 per family	
Cared service				
▪ Physician visits	100% after $110 co-pay		100% after $10 co-pay	
▪ Emergency care	100% after $50 co-pay		100% after $50 co-pay	
▪ Nonemergency care	50% after deductible		50%	
Prescription drug co-pays	**Retail** *Percent*	**Order** *Dollars*	**Retail** *Percent*	**Order** *Dollars*
Generic	10	10	10	10
Brand	10	20	10	20
Maximum lifetime benefit	$2,582,000		$2,582,000	
Option to go out of network?	Yes		No	

Source: MPS

Figure A.21

Health care costs by geography

Percent



Note: Research conducted for self insurance PPO plans only. Analysis conducted across plans of comparable deductibles and co-insurance of national benchmarks.
Source: United and Humana websites, MPS

Figure A.22

HMO – Active Employee Provisions

Provision	MPS	City of Milwaukee	State of Wisconsin	Kaiser Benchmark *National*
▪ Deductible				
– Individual	None	None	None	$91
– Family	None	None	None	$190
▪ Coinsurance & co-pay				
– Dr. visits	100%/$10	100%/$10	100%/$0	NA/$17
– Inpatient	90%/$0	100%/$0	100%/$0	84%/$223
– Outpatient	90%/$0	100%/$0	100%/$0	85%/$122
– ER	100/$50	100%/$25	100%/$65	NA/$75
▪ Annual coinsurance limit				
– Individual	$150	NA	NA	NA
– Family	$450	NA	NA	NA
▪ Total Annual premium cost per employee (average)	$11,429	$14,370	$15,828	$10,349
– Individual	$5,484	$6,660	$7,918	$4,754
– Family	$14,376	$18,192	$19,750	$13,122
▪ Employee share of premium	0%	0%	0%	23%
▪ Total Annual Employer Cost per Employee	$11,429	$14,370	$15,828	$7,969
– Individual	$5,484	$6,660	$7,918	$3,661
– Family	$14,376	$18,192	$19,750	$10,104

Note: Deductible, Inpatient Services, and Coinsurance Limit figures include plans which do not offer these provisions
Source: MPS HR, City of Milwaukee Benefits, Kaiser 2008 Report, Mercer National Survey 2007

Figure A.23

PPO – Active Employee Provisions

Provision	MPS		City of Milwaukee		Kaiser Benchmark	
	In network	Out network	In network	Out network	In network	Out network
▪ Deductible						
– Individual	$100	$100	$100	$100	$370	
– Family	$300	$300	$300	$300	$887	
▪ Coinsurance & co-pay						
– Dr. visits	100%/$10	80%/$0	80%/NA		80%/$20	70%/$20
– Inpatient	90%/$0	80%/$0	100%/NA		86.8%/NA	80.2%/NA
– Outpatient	90%/$0	80%/$0	100%/NA		84%/$122	
– ER	100/$50	100%/$50	100%/NA		NA	NA
▪ Annual coinsurance limit						
– Individual	$200	$500	NA			
– Family	$600	$1,500	NA		$1,680	$2,795
▪ Total Annual premium cost per employee (average)	$18,483		$17,463		$10,241	
– Individual	$10,212		$9,504		$4,802	
– Family	$22,584		$21,408		$12,937	
▪ Employee share of premium	0%		12%		23%	
▪ Total Annual Employer Cost per Employee	$18,483		$15,367		$7,886	
– Individual	$10,212		$8,402		$3,698	
– Family	$22,584		$18,925		$9,961	

Note: Deductible, Inpatient Services, and Coinsurance Limit figures include plans which do not offer these provisions
Source: MPS HR, City of Milwaukee Benefits, Kaiser 2008 Report, Mercer National Survey 2007

Figure A.24

Retiree plan comparison: MPS and the City of Milwaukee

	City of Milwaukee			MPS	
Retirement Coverage Eligibility	**General city**	**Fire**	**Police**		
▪ Age (yrs)	55 OR 60	49	No Requirement	55	
▪ Service (yrs)	30 15	25	25	15	
	Anthem	UnitedHealthcare		Aetna	UnitedHealthcare
Provisions	**PPO**	**HMO**		**PPO**	**HMO**
▪ Employee Share of Monthly Premium (Post-Medicare)	75% of Base 100% Major Medical	75% of Base 100% MM		No monthly premium[1]	
▪ Deductible	Individual – $50 Family – $150	None		Individual – $100 Family – $300	None
Employer Co-Insurance					
▪ Doctor visits	100% (after deductible)	100%		80%	100%
▪ In-patient hospital	100%	100%		80%	90%
▪ Out-patient	100%	100%		80%	90%
▪ Emergency Room	100%	100% ($25 co-pay)		100% ($50 co-pay)	100% ($50 co-pay)
Average TOTAL annual premium cost per employee	$9,053	$9,133		$9,136	$7,624
Average CITY/ MPS premium cost per employee	$5,232	$4,650		NA	NA
▪ Percent of Total	57%	51%		~71-81%	~71-81%

1 Contribution varies by the amount of the premium in effect at the time of retirement.
Source: MPS HR, City of Milwaukee Benefits Office, GASB 45 Actuarial Report

Figure A.25

Engineer staffing options

Potential solutions

- **Increase responsibility of each engineer from 1 school to a 10-15 school cluster**
  - Replace full-time school-based engineers with lower paid custodian
  - Optimize use of engineers' time by giving them oversight of several buildings

A Replace engineer with full-time BA

Cluster size	Net impact: *Work force*	*$ Millions*
~15 schools	Save 124 school engineers	8.1
	Add 124 school BAs	-7.2
	Add ~8 cluster engineers[1]	-0.6
	Net gain of 8 employees	0.3 savings

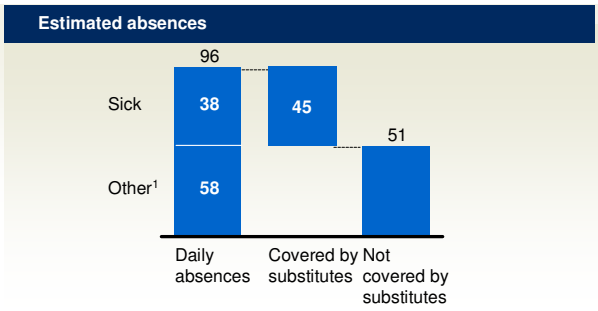
B Replace engineer with full-time BSH

Cluster size	Net impact: *Work force*	*$ Millions*
~10 schools	Save 124 school engineers	8.1
	Add 124 school BAs	-6.7
	Add ~12 cluster engineers[1]	-0.9
	Net gain of 12 employees	0.5 savings

1 Cluster engineer salary assumed to be highest of today's engineers (Engineer IV: ~$56.7k/ year)
Source: MPS observations

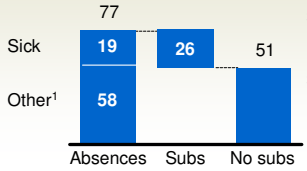
Figure A.26

Facilities and maintenance absences



Potential solutions

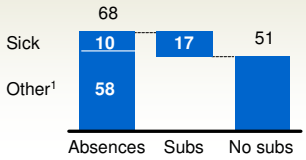
Option 1: Reduce allowable sick absences by 50%[2]



Sub reduction: 19

Savings: $1.1 M

Option 2: Reduce allowable sick absences by 75%[2]



Sub reduction: 28

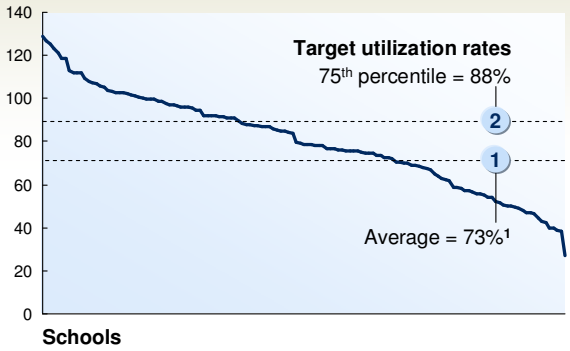
Savings: $1.6 M

1 Other includes time off due to vacation, industrial accidents, funerals, and other unspecified reasons
2 Assumes same service level: ~51 absences not covered by subs each day
Source: MPS

Figure A.27

Utilization rates by school

Utilization by school
Percent of total student desks filled



Distribution of schools by utilization level
Number of schools

>100%	27
90-99%	24
80-89%	15
70-79%	29
60-69%	12
50-59%	15
<50%	15

1 Average utilization excludes closed schools and excludes schools over 100% capacity
Source: MPS, CoStar, Milwaukee City Assessor's Office

Figure A.28

Potential costs and savings due to consolidation

Summary of costs and savings	1 Move all below average schools up to average (73%)	2 Move all schools up to 75th percentile (88%)
Surplus facilities	12	20
Est. market value (one-time revenue)[1]	$0 – 10.6 M	$0 – 17.7 M
Est one-time costs[2]		
Total relocation cost	$0.5 M	$0.8 M
Total cost to retrofit new school	$0 – 4.3 M	$0 – 7.2 M
Total one-time cost	$0.5 – 4.8 M	$0.8 – 8.0 M
Est. annual savings		
Building operations[3]	$1.9 M	$3.0 M
Utilities	$1.9 M	$3.1 M
Maintenance & upkeep[4]	$0.3 – 0.8 M	$0.5 – 1.4 M
School personnel[5]	$2.2 – 3.6 M	$4.3 – 7.2 M
Est. annual cost		
Transportation[6]	$2.4 M	$5.0 M
Annual net impact	$3.9 –5.8 M	$5.9 – 9.7 M

1 Estimated market value based on Milwaukee average assessed value by City Assessor's office in January 2008 ($176k/ acre), discounted 20% to today's assumed market value; low end of range assumes buildings must be demolished while high end assumes no demolition
2 Costs based on average cost to move per building ($40k) and range of actual renovation costs per building ($90k - 360k) over past 3 years
3 Building operations savings assumes that right-size staff initiative already implemented in under-utilized schools that would be closed (i.e, savings would be larger ($2.6 – 4.4 M, instead of $1.9 – 3.0 M) if schools still staffed at 100%)
4 Maintenance & upkeep high end of range based on estimated maintenance & repair costs of $68k per facility per year that would be eliminated; low end deducts $0.5 – 0.9 M ($45k per building) for estimated annual upkeep cost of newly closed buildings (if they are not sold)
5 Low to high range assumes that 25-50% of school office and food services personnel in each closed school will not be retained; in all cases, assumes school principal, all teachers, and health staff are retained
6 Assumes 70% of students in closed schools need transportation (MPS average), and that new school will move from less than 6 miles away to greater than 6 miles away; does not take into account potential bus route consolidation

Source: MPS, CoStar, Milwaukee City Assessor's Office