



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

January 18, 2005

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 3: Milwaukee Parental Choice Program Enrollment Limit

Assembly Bill 3 would modify the student enrollment limit for the Milwaukee parental choice program. The bill was introduced and referred to the Joint Committee on Finance on January 11, 2005.

BACKGROUND

Under the Milwaukee parental choice program, state funds are used to pay for the cost of children from low-income families in the City of Milwaukee to attend, at no charge, private schools located in the City. Pupil participation is limited to pupils in grades K-12 with family incomes less than 175 percent of the federal poverty level. The limit on the number of pupils who can participate in the program is 15 percent of the MPS membership. In 2004-05, this limit is approximately 14,750 pupils.

If the total number of available spaces in the private schools is greater than the maximum number of pupils allowed to participate, the Department of Public Instruction (DPI) must prorate the number of spaces available at each participating private school. If a private school rejects an applicant due to lack of space, the pupil may transfer his or her application to another participating private school that has space available.

For each pupil attending a choice school, DPI pays the parent or guardian an amount that is equal to the lesser of: (a) the private school's operating and debt service cost per pupil related to educational programming; or (b) the amount paid per pupil in the previous school year adjusted by

the percentage change in the general school aids appropriations from the previous school year to the current school year. If that percent change is a negative number, however, the per pupil payment does not change from the prior year. The maximum per pupil payment under choice program in 2004-05 is \$5,943.

The estimated cost of the payments from the choice program appropriation is partially offset by a reduction in the general school aids otherwise paid to MPS by an amount equal to 45% of the total cost of the choice program. Under revenue limits, MPS may levy property taxes to make up for the amount of aid lost due to this reduction. As a result, the general fund pays for 55% of the choice program and MPS for 45%.

SUMMARY OF BILL

Under Assembly Bill 3, there would be no limit on enrollment in the choice program for the 2005-06 school year. Beginning in the 2006-07 school year, the enrollment limit for the choice program would be set at the number of pupils who attended choice schools in the 2005-06 school year.

FISCAL EFFECT

Potential Effect on the General Fund. Because the state no longer funds two-thirds of partial school revenues, any decrease to a school district's revenue limit would no longer result in a reduction to general aids funding equal to two-thirds of the decrease. For example, if MPS enrollment were to decline as a result of children enrolling in the choice program who would otherwise enroll in MPS, the general school aids appropriation would not be automatically reduced as a result of the decline. If additional students enroll in the choice program, the state would pay 55% of the payment amount for each pupil. Thus, under current law, to the extent that the change proposed in the bill results in more students entering the choice program, general fund expenditures would increase.

Determining the potential increase in expenditures in the 2005-07 biennium under the bill depends on two factors which are unknown at this time: (a) the number of pupils who would attend a choice school in 2005-06; and (b) the increase in general school aids in 2005-06 and 2006-07. Since the expansion of the choice program to include sectarian schools became effective in 1998-99, the average annual increase in enrollment in the program has been approximately 1,500 students. Assuming that 1,500 additional pupils attend the choice program in 2005-06 under the bill, and that base level funding is maintained for general school aids in the 2005-07 biennium, the state share of program expenditures would increase by an estimated \$4.9 million GPR in each year of the biennium. If funding for general school aids is increased in the 2005-07 biennium, the fiscal effect of the bill would increase by the same percentage as any increases to general school aids.

Potential Effect on MPS Revenue Limits. Under the provisions of the bill, if additional pupils enroll in the choice program that otherwise would have enrolled in MPS, the revenue limit for MPS would be lower than it would have been. Under revenue limits, one-third of the number of choice pupils that do not attend MPS would be reflected immediately under the three-year rolling average of enrollment. Revenue limits for MPS would fully reflect the loss of additional choice pupils only in the third year. If, for example, 1,500 pupils had been fully phased out for MPS revenue limit purposes in 2004-05 under the provisions of the bill, it is estimated that the MPS revenue limit would have been reduced by \$13.5 million compared to what the revenue limit would have been had those 1,500 pupils enrolled in MPS, had those changes applied in that year.

If the 1,500 additional pupils would otherwise have enrolled in non-MPS schools, then there would not be any effect on MPS revenue limits.

Potential Effect on the Distribution of General School Aids. Because general school aids are calculated using prior year membership and shared cost data, the loss of additional pupils from MPS to the choice program would not directly affect the amount of equalization aid received by MPS until the next year. Once these pupils and their related shared costs would be fully excluded from MPS for general school aid purposes, assuming all other aid factors are unchanged, there would be aid shifts under the equalization formula. Under the hypothetical example that 1,500 pupils would have enrolled in the choice program rather than MPS for the 2004-05 aid calculation under the bill, it is estimated that aid to MPS would have decreased by \$15.8 million and the aid to the other 425 school districts would have increased, in total, by \$11.8 million, had those changes applied in that aid year.

These aid changes would reflect the effects of three factors. First, the increase in choice membership would have resulted in a larger 45% aid reduction for MPS under the current choice financing structure. Second, membership and shared costs for MPS would have been reduced. Because MPS receives positive aid at the tertiary level of the equalization aid formula, these reductions would have resulted in MPS receiving less aid under the equalization aid formula. Third, because membership and shared costs statewide would have decreased as a result of the MPS changes, the secondary guarantee and tertiary guarantee would have been slightly higher, which would have increased the aid received by most other districts at those levels of the formula.

If the 1,500 additional pupils would otherwise have enrolled in non-MPS schools, then the only effect on general school aids would have been an increase in the aid reduction for MPS in 2004-05 of \$4.0 million, had those changes applied in that aid year.

Potential Effect on MPS School Property Tax Levy. With respect to the MPS property tax levy, if 1,500 pupils that otherwise would have attended MPS had been fully phased out for MPS revenue limit and equalization aid purposes in 2004-05, it is estimated that the MPS revenue limit would have been reduced by \$13.5 million and that aid to MPS would have decreased by \$15.8 million compared to the calculations that would have resulted had those 1,500 pupils enrolled in MPS. Under revenue limits, MPS would have the authority to levy to replace any loss of aid within

the new limit. Thus, the MPS levy could have increased by up to \$2.3 million in 2004-05 under this scenario, based on the decision of the Board of School Directors of MPS.

If the 1,500 additional pupils would have, instead, otherwise attended non-MPS schools, then the change in general school aids would have been the \$4.0 million reduction noted above, and the MPS levy could have increased by up to \$4.0 million, depending on the decision of the Board of School Directors of MPS.

Prepared by: Russ Kava