



Legislative Fiscal Bureau

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February 27, 2006

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 618/Assembly Bill 1057: Milwaukee Parental Choice Program and Student Achievement Guarantee in Education Program

Senate Bill 618 was introduced on February 21 and referred to the Senate Committee on Education. On February 23, the Senate Committee recommended passage on a 4-3 vote. Assembly Bill 1057, which is a companion bill, was introduced on February 21 and referred to the Assembly Committee on Education Reform. On February 23, the Assembly Committee reported passage recommended on a 6-2 vote. The bills would: (a) increase the limit on choice participation; (b) increase the per pupil payment under the SAGE program; (c) modify pupil eligibility under the choice program; and (d) establish a system of accreditation and testing for choice schools.

BACKGROUND

Milwaukee Parental Choice Program. Under the 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% of the federal poverty level. In the school year prior to their initial enrollment in a private school, participants must have been either enrolled in the Milwaukee Public Schools (MPS), the choice program, or grades K-3 in private schools located in the City, or not enrolled in school. The limit on the number of pupils who can participate in the program is 15% of the MPS membership. In 2005-06, this limit is approximately 14,750 pupils. It is estimated that enrollment under the program will reach that limit in 2005-06.

It is estimated that participation in the choice program in 2006-07 will exceed the 15% limit, which will be approximately 14,530 students. Under current law, in any school year in which there are more spaces available in participating choice schools than the maximum number of pupils

allowed to participate, the Department of Public Instruction (DPI) is required to prorate the number of spaces available at each participating choice school. On December 27, 2005, DPI notified schools participating in the program of the procedures that will be used to implement the prorate process for 2006-07. Under the current prorate procedure, which was outlined by staff of the Legislative Council during deliberations on earlier administrative rules proposed by DPI on the prorate requirement, each choice school will be able to fill a percentage of its available seats. The percentage will be equal to the number of students eligible to participate in the program divided by the total number of choice seats available, as indicated by choice schools when they register to participate by February 1. On February 20, DPI notified choice schools that a total of 30,833 seats are available in 2006-07 for choice pupils. With a limit of 14,530 pupils, each choice school would be able to fill 47.1% of its available seats. Thus, if a choice school indicated to DPI on February 1 that it has 300 seats available for choice pupils, it would be able to take 141 pupils under the program.

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 appropriation 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 2005-06 is \$6,351. Based on the general school aids appropriations under 2005 Act 25 (the 2005-07 budget act), the maximum per pupil payment will be \$6,501 in 2006-07.

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%. In 2005-06, it is estimated that the state will fund \$51.5 million of the cost of the choice program, while the MPS aid reduction will offset the remaining \$42.2 million.

SAGE Program. Under current law, the student achievement guarantee in education (SAGE) program provides five-year grants to eligible school districts for the purposes of: (a) lowering class sizes to 15 pupils to one teacher in grades kindergarten through third; (b) keeping the school open every day for extended hours and collaborating with community organizations to make educational and recreational opportunities, and community and social services, available in the school to all district residents; (c) providing a rigorous academic curriculum designed to improve academic achievement; and (d) creating staff development and accountability programs that provide training for new staff members, encourage employee collaboration, and require professional development plans and performance evaluations.

Since its creation, three rounds of five-year contracts have been authorized. Under 2001 Act 16, DPI was authorized to enter into renewal contracts for additional five-year terms for any

currently participating SAGE school. As a condition of receiving payments under a renewal of a SAGE contract, a school board is required to maintain the reduction in class size achieved under the original contract in grades kindergarten through third.

DPI is required to fund contracts at \$2,000 per low-income pupil enrolled in the eligible grades, which has remained unchanged since the program's start in 1996-97. Additionally, DPI is required to arrange for an evaluation of the SAGE program and must allocate \$250,000 annually for this purpose. The Department has contracted with the University of Wisconsin-Madison for this evaluation. Under 2005 Act 25, \$97,614,000 GPR in 2005-06 and \$98,588,000 GPR in 2006-07 is provided to fund the SAGE program.

SUMMARY OF BILLS

SAGE Program. Under the bills, the current law \$2,000 per pupil payment would be increased. In the 2007-08 school year and any subsequent year, participating districts would be paid \$2,250 multiplied by the number of low-income pupils enrolled in grades kindergarten to third in schools covered by SAGE contract renewals. The requirement to maintain class sizes of no more than 15 pupils per teacher in the eligible grades, and other current law requirements, would be unchanged.

Choice Participation Limit. The limit on the number of pupils who can participate in the program would be increased from 15% of the MPS membership to 22,500 pupils, as counted under the current law definition of pupils enrolled (full-time equivalent pupils). The bills would delete the requirement that DPI prorate the number of spaces available at each choice school if there are more spaces available in participating choice schools than the maximum number of pupils allowed to participate. Instead, a new requirement would be created under which, whenever the State Superintendent determines that the limit has been reached, he or she would be required to issue an order prohibiting the participating choice schools from accepting additional pupils until he or she determines that the number of pupils attending choice schools has fallen below the limit.

Choice Pupil Income Eligibility. Beginning with the 2006-07 school year, a pupil attending a school in the choice program would continue to remain eligible under the program if his or her family income is less than 220% of the federal poverty level, rather than the current law 175%. A sibling of a pupil attending a choice school would initially be eligible for participation in the choice program if his or her family income is under 220% of the federal poverty level. A pupil who leaves the program would need to meet the income requirement of 175% of the federal poverty level to re-enter the program, unless the pupil has a sibling still in the program, in which case the 220% threshold would apply.

Choice Prior-Year Participation Requirements. The prior-year participation requirements for pupils (that they must have been either enrolled in MPS, the choice program, or grades K-3 in

private schools located in the City, or not enrolled in school, in the school year prior to their initial enrollment in a choice school) would be deleted, beginning with the 2006-07 school year.

Choice School Accreditation. Under the bills, a choice school would need to either: (a) achieve accreditation by December 31 of the third school year following the first school year that begins after June 30, 2006, in which it participates in the choice program, by the Wisconsin North Central Association, the Wisconsin Religious and Independent Schools Accreditation, the Independent Schools Association of the Central States, the Archdiocese of Milwaukee, the Institute for the Transformation of Learning at Marquette University, or any other organization recognized by the National Council for Private School Accreditation; or (b) be approved for scholarship funding by Partners Advancing Values in Education (PAVE) for the 2005-06 school year.

If a school did not participate in the choice program during the 2005-06 school year, or if a school participated in the program in 2005-06 but did not participate in 2006-07, and the school is not accredited by one of the organizations or approved by PAVE, that school would be required to apply for accreditation by December 31 of the school year in which it enters or re-enters the choice program. However, the bills would specify that any school that participated in the choice program during the 2005-06 school year, notified the State Superintendent of its intent to continue to participate in the 2006-07 school year, and is not accredited by one of the organizations or approved by PAVE would be required to apply for accreditation by September 30, 2006. If the State Superintendent determines that such a school has not applied by September 30, the school may not participate in the program in the 2006-07 school year.

If, during the accrediting process, an accrediting agency determines that a school does not meet all of the current law requirements for a private school, the accrediting agency would be required to report that failure to DPI. Under current law, an institution is considered a private school if its education program meets the following criteria: (a) the primary purpose of the program is to provide private or religious-based education; (b) the program is privately controlled; (c) the program provides at least 875 hours of instruction each school year; (d) the program provides a sequentially progressive curriculum of fundamental instruction in reading, language arts, mathematics, social studies, science, and health; (e) the program is not operated or instituted for the purpose of avoiding or circumventing the compulsory school attendance requirement; and (f) the pupils in the institution's educational program, in the ordinary course of events, return annually to the homes of their parents or guardians for not less than two months of summer vacation, or the institution is licensed as a child welfare agency.

Under the bills, if the State Superintendent determines that any of the following have occurred, he or she could issue an order barring a choice school from participating in the program in the subsequent school year: (a) a school that is required to seek accreditation by December 31 of the school year in which it enters or re-enters the choice program has not done so; (b) a school's application for accreditation had been denied by an accrediting organization; or (c) the private school has not achieved accreditation by December 31 of the third school year following the first school year that begins after June 30, 2006, in which it participates in the program. If the State

Superintendent issues such an order, he or she would be required to immediately notify the parent or guardian of each pupil attending the school.

Choice Testing. Under the bills, each choice school would be required to annually administer a nationally-normed, standardized test in reading, mathematics, and science to pupils attending the school under the choice program in the 4th, 8th, and 10th grades. Choice schools would be authorized to administer additional standardized tests to choice pupils. Annually from 2006 through 2011, a choice school would be required to provide scores of all standardized tests that it administers to the School Choice Demonstration Project. The Legislative Audit Bureau (LAB) would be required to review and analyze the standardized test score data received from the School Choice Demonstration Project. Based on its review, LAB would be required to report to the Legislature annually from 2007 to 2011 on: (a) the results of standardized tests administered by choice schools; (b) the scores of a representative sample of choice pupils on the Wisconsin knowledge and concepts examinations administered in the 4th, 8th, and 10th grades and the Wisconsin reading comprehension test administered in the 3rd grade; and (c) the scores of a comparable group of MPS students on the knowledge and concepts examinations and reading comprehension tests.

FISCAL EFFECT

SAGE Program. If the per pupil SAGE aid would increase by \$250 annually, approximately \$12.5 million in additional SAGE aid eligibility would be generated annually. Because schools can withdraw from the program and the number of low-income pupils in participating schools varies each year, this fiscal estimate could differ from the actual aid eligibility that would be generated annually. Because the per pupil payment would increase beginning in 2007-08, the fiscal effect of this provision would first be realized in the 2007-09 biennium, and the 2007 Legislature would need to appropriate this additional funding to fully fund the program.

Choice Program. The bills would increase the limit on the number of pupils that could participate in the choice program and expand eligibility to students who are currently ineligible to participate in the program. It is difficult to estimate the number of additional students who would participate in the program, given that it would depend on the decisions of those families that would become eligible under the provisions of the bills. The potential fiscal effect of the bills, however, can be discussed in more general terms.

Potential Effects on the General Fund. Because the state no longer has a commitment to fund 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 changes proposed in the bills result in more students entering the choice program, general fund expenditures would increase.

Over the last five years, participation in the choice program has grown by an average of 1,100 FTE pupils annually. In its fiscal estimates to Senate Bill 521 and Assembly Bill 941, companion bills that would also eliminate the prior year participation requirements and set continuing eligibility for the program at 220% of the poverty level, DPI notes that PAVE estimates that an additional 800 to 1,000 students would become eligible for the program under these two provisions. Based on the higher limit and the modified eligibility provisions, it is estimated that participation under the choice program would increase to 16,750, which would represent an increase of 2,000 pupils to 2005-06. Because the current law funding for the choice program is based on an estimated limit of 14,530 in 2006-07, the estimate of 16,750 pupils would represent an increase of 2,220 pupils from current law in that year. Using the estimate of an increase of 2,220 pupils and the maximum allowable per pupil payment amount of \$6,501, general fund expenditures in 2006-07 would increase by an estimated \$14.4 million GPR. However, aid to MPS would be reduced by 45% of this amount (\$6.5 million) so that the net cost to the general fund would be an estimated \$7.9 million.

Potential Effects on MPS Revenue Limits. Under the provisions of the bills, 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 left 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, 2,000 pupils had been fully phased out for MPS revenue limit purposes in 2005-06 under the provisions of the bills, it is estimated that the MPS revenue limit would have been reduced by \$19.2 million compared to what the revenue limit would have been had those 2,000 pupils enrolled in MPS, had those changes applied in that year.

If the 2,000 additional pupils would otherwise have enrolled in non-MPS schools, then there would not have been any effect on MPS revenue limits.

Potential Effects 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 example that 2,000 pupils would have enrolled in the choice program rather than MPS for the 2005-06 aid calculation under the bills, it is estimated that aid to MPS would have decreased by \$22.3 million and the aid to the other 425 school districts would have increased, in total, by \$16.6 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 cost ceiling, secondary guarantee, and tertiary guarantee would all have been slightly higher, which would have increased the aid received by most other districts at those levels of the formula.

If the 2,000 additional pupils would otherwise have enrolled in non-MPS schools, then the only effect on general school aids would have been an increased aid reduction of \$5.7 million for MPS in 2005-06, had those changes applied in that aid year.

Potential Effects on MPS School Property Tax Levy. With respect to the MPS property tax levy, if 2,000 pupils that otherwise would have attended MPS had been fully phased out for MPS revenue limit and equalization aid purposes in 2005-06, it is estimated that the MPS revenue limit would have been reduced by \$19.2 million and that aid to MPS would have decreased by \$22.3 million compared to the calculations that would have resulted had those 2,000 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 \$3.1 million in 2005-06 under this scenario, based on the decision of the Board of School Directors of MPS.

If the 2,000 additional pupils would have, instead, otherwise attended non-MPS schools, then the reduction in general school aids for MPS would have been the \$5.7 million noted above, and the MPS levy could have increased by up to \$5.7 million, depending on the decision of the Board of School Directors of MPS.

The revenue limit and general school aid effects described above are generally proportional for each additional 2,000 pupils that would attend a choice school rather than MPS. It should be noted, however, that the actual aid effects would not be perfectly proportional, as changes to the assumptions in the number of students who would attend choice schools would affect the various cost and value ratios in the equalization aid formula.

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