



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #625

Milwaukee Parental Choice Program and Milwaukee-Racine Charter School Program Payment Amounts (DPI -- Choice and Charter)

[LFB 2003-05 Budget Summary: Page 352, #2 and 353, # 4]

CURRENT LAW

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 of Milwaukee. For each pupil attending a choice school, the Department of Public Instruction (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 plus the amount of the per pupil revenue limit increase provided to public school districts under revenue limits in the current year. 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 the Milwaukee Public Schools (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%.

The Common Council of the City of Milwaukee, the Chancellor of the University of Wisconsin-Milwaukee, and the Milwaukee Area Technical College Board are authorized to operate or contract to operate charter schools located within MPS. The Chancellor of the University of Wisconsin-Parkside is authorized to operate or contract to operate one charter school located within the Racine Unified School District (RUSD). DPI is required to pay the operators of Milwaukee and Racine charter schools an amount equal to the sum of the amount paid per pupil in the previous school year and the amount of revenue increase per pupil allowed under revenue limits, multiplied by the number of pupils attending the charter school. Payments to these charter schools are fully offset by a proportionate reduction in the general school aids of

all 426 public school districts. Under revenue limits, school districts may levy property taxes to make up for the amount of revenue lost due to these aid reductions.

GOVERNOR

Specify that the amount paid per pupil under the Milwaukee parental choice program would be equal to the lesser of: (a) the private school's operating and debt service cost per pupil related to educational programming, as determined by DPI; or (b) the amount paid per pupil in the prior school year adjusted by the percent change in the general school aids appropriations from the previous school year to the current school year. Provide that if that percent change is a negative number, the per pupil payment would not change from the prior year. Specify that these changes would first apply to payments made in 2003-04.

As a result of this change, the choice program appropriation would be reduced by \$2,132,500 in 2003-04 and \$4,890,800 in 2004-05 compared to current law. The 45% MPS choice reduction would be reduced by \$959,600 in 2003-04 and \$2,200,900 in 2004-05. The net general fund fiscal effect of this item would be to reduce expenditures by \$1,172,900 in 2003-04 and \$2,689,900 in 2004-05.

Modify current law to require that the Department pay to operators of Milwaukee and Racine charter schools an amount equal to the sum of the amount paid per pupil in the previous school year and the increase in the per pupil amount paid to private schools under the choice program, multiplied by the number of pupils attending the charter school. Provide that these changes would first apply to payments in 2003-04.

As a result of this change, the charter program appropriation would be reduced by \$840,300 in 2003-04 and \$2,238,300 in 2004-05 compared to current law. General fund lapse amounts would be reduced correspondingly, resulting in no net fiscal effect on the general fund.

DISCUSSION POINTS

1. Under the bill, it is estimated that enrollment in the choice program will be 11,721 pupils in 2003-04 and 12,307 in 2004-05. The maximum per pupil payment, based on the current law per pupil adjustment under revenue limits, is estimated to be \$6,020 in 2003-04 and \$6,263 in 2004-05. Total choice funding under current law is estimated to be \$70,560,400 in 2003-04 and \$77,078,700 in 2004-05. Under the current choice program funding structure, the 55% general fund share of the program would be \$38,808,200 in 2003-04 and \$42,393,300 in 2004-05. The 45% reduction from MPS general school aids would be \$31,752,200 in 2003-04 and \$34,685,400 in 2004-05.

2. For the charter program, it is estimated that 4,644 students will be enrolled in the program in 2003-04. Under current law, aid per student would be an estimated \$7,188. In 2004-05, it is estimated that 5,644 students will participate and, under current law, the aid per student would

be an estimated \$7,431. Charter schools would receive \$33,381,100 in 2003-04 and \$41,941,400 in 2004-05. These payments would be fully offset by the reduction in general school aids for all school districts in an amount equal to total estimated payments under the charter program.

3. Under the Governor's proposal, the annual adjustment to the maximum per pupil choice payment would be linked to the percent increase in funding provided in general school aids. Based on the general school aids appropriations from the general and transportation funds in the bill, the maximum per pupil payment under the choice program would be \$5,838 in 2003-04 and \$5,866 in 2004-05, rather than \$6,020 in 2003-04 and \$6,263 in 2004-05 as estimated under current law. The choice payment appropriation would be reduced by \$2,132,500 in 2003-04 and \$4,890,800 in 2004-05 compared to current law as a result of this change. In addition, the 45% MPS choice reduction would be reduced by \$959,600 in 2003-04 and \$2,200,900 in 2004-05. The net effect of this provision on the general fund would be to reduce expenditures by \$1,172,900 in 2003-04 and \$2,689,900 in 2004-05.

4. Charter schools would receive the same dollar increase in the per pupil payment that choice schools receive under the bill. Payments to choice schools would increase by \$55 in 2003-04 and \$28 in 2004-05. Under the bill, charter school payments would thus increase to \$7,006 in 2003-04 and \$7,034 in 2004-05, rather than \$7,188 in 2003-04 and \$7,431 in 2004-05 as estimated under current law. The charter payment appropriation would be reduced by \$840,300 in 2003-04 and \$2,238,300 in 2004-05 compared to the current law as a result of this change. The statewide charter reduction from general school aids would be reduced correspondingly, resulting in no net general fund effect.

5. The Governor's proposal for changing the annual increase in choice and charter per pupil payments would provide an immediate savings to property taxpayers. The impact of the choice change would only affect MPS, while the charter change would affect all school districts. Because both payments would decrease, the reduction from each district's general school aids would decrease, thus providing more state aid to all school districts. Because revenue limits would remain in effect, school districts could still levy to backfill the choice and charter reductions; however, the reduction amount would be smaller, as would the corresponding levy backfill.

6. When the choice program was created in 1989 Act 336, the maximum per pupil payment amount was set equal to the equalization aid per member received by MPS. This provision was changed in 1999 Act 9, under which the per pupil payment for the choice program was set at the sum of the previous year's payment plus the amount of revenue limit increase per pupil allowed in the current school year.

7. The charter school program was created under 1997 Act 27. Originally, the charter school payment amount was based on the shared cost per member for MPS in the previous school year. However, this provision was also changed in 1999 Act 9, so that the per pupil payment amount for these charters equaled the sum of the previous year's payment plus the amount of revenue increase per pupil allowed in the current school year, similar to the choice program payment.

8. The following table shows the history of the per pupil payments under the choice and charter programs since the start of each program. As shown in the table, the largest percentage increases in the choice payments came in 1995-96 and 1996-97, as the state moved to provide two-thirds of K-12 partial school revenues. This resulted in a relatively large increase in the per pupil equalization aid payment for MPS, and thus the per pupil payment under the choice program. Since 1998-99, choice payments have increased by slightly over 4% each year. During the history of the charter program, per pupil payments have increased by approximately 3.5% each year.

Per Pupil Payments Under Choice and Charter Programs

	<u>Choice Program</u>			<u>Charter Program</u>		
	<u>Per Pupil Payment</u>	<u>Change to Prior Year Amount</u>	<u>Percent</u>	<u>Per Pupil Payment</u>	<u>Change to Prior Year Amount</u>	<u>Percent</u>
1990-91	\$2,446					
1991-92	2,643	\$197	8.1%			
1992-93	2,745	102	3.9			
1993-94	2,985	240	8.7			
1994-95	3,209	224	7.5			
1995-96	3,667	458	14.3			
1996-97	4,373	706	19.3			
1997-98	4,696	323	7.4			
1998-99	4,894	198	4.2	\$6,062		
1999-00	5,106	212	4.3	6,272	\$210	3.5%
2000-01	5,326	220	4.3	6,494	222	3.5
2001-02	5,553	227	4.3	6,721	227	3.5
2002-03	5,783	230	4.1	6,951	230	3.4

9. Under current law, the choice and charter payments increase by the same dollar amount each year. Staff from DOA indicates that this policy was preserved under the bill, because the two types of schools would continue to receive the same yearly dollar increases. It could be argued that linking the increase in the choice and charter payments to the increase in general school aids for public schools is desirable, since the state would be providing equivalent increases in aid to public schools, choice schools and charter schools under the bill.

10. Also, the rate of increase in general aid provided to public school districts under the bill would decline with the repeal of the two-thirds commitment. DOA staff indicate that linking the increase in choice and charter payments to lower increases in state aid, which would result in lower payments under both programs would reduce the total cost of both programs and thus have public schools, choice schools and charter schools all contribute toward the reduction of the general fund deficit.

11. However, one could argue that since choice and charter payments were set at

different amounts when each of the programs was enacted, it would not be necessary to maintain the same per pupil dollar increase in the payments.

12. For example, under the bill the per pupil payment under the choice program would increase by \$55 per pupil, from \$5,783 in 2002-03 to \$5,838 in 2003-04. This amount would represent a 0.95% increase per pupil. On the other hand, under the bill charter schools' per pupil payments would increase from \$6,951 to \$7,006, a 0.79% increase. One could argue, then, that choice and charter schools would continue to receive disparate increases, on a percentage basis.

13. There are different factors that could be considered in comparing these programs with other K-12 schools. Under current law, school districts and schools under these programs receive the same increase in per pupil resources, as the per pupil adjustment under revenue limits is used for all. Under SB 44, the focus would be on that portion of resources funded from state general school aids, as the percentage increase provided in general school aids would apply to the per pupil payments under these programs as well.

14. Another alternative to SB 44, based on revenue limits, rather than general school aids funding, would be to adjust the payments under the choice and charter programs by the same percentage increase that the per pupil adjustment under revenue limits provided to public schools on a statewide basis in the prior year. Under this alternative, public schools, choice schools and charter schools would receive the same average percentage increase in their overall resource base, excluding categorical aids, rather than in their major state aid appropriations. In 2002-03, the \$230.08 per pupil adjustment under revenue limits provides a 3.0% percent increase to the estimated statewide base revenue per pupil of \$7,599. The 2003-04 per pupil adjustment is estimated to provide the same percentage increase for that year.

15. A 3.0% adjustment to the choice payment amount each year would result in a payment of \$5,956 in 2003-04 and \$6,135 in 2004-05. This payment amount would be less than the estimated payment under current law and greater than under the provisions of the bill. Under this alternative, the choice program appropriation would be \$69,810,300 in 2003-04 and \$75,503,400 in 2004-05, an increase of \$1,382,400 in 2003-04 and \$3,315,500 in 2004-05 compared to the bill. The net effect on the general fund (the 55% share of program costs) would be an increase in expenditures of \$760,300 in 2003-04 and \$1,823,500 in 2004-05 compared to the bill. The 45% MPS lapse would increase by \$622,100 in 2003-04 and \$1,492,000 in 2004-05 compared to the bill.

16. A 3.0% adjustment to the charter payment amount each year would result in a payment of \$7,160 in 2003-04 and \$7,375 in 2004-05. This payment amount also would be between the estimated payment under current law and under the provisions of the bill. Under this alternative, the charter program appropriation would be \$33,251,000 in 2003-04 and \$41,624,500 in 2004-05, an increase of \$710,200 in 2003-04 and \$1,921,400 in 2004-05 compared to the bill. While this would represent an increase in general fund expenditures compared to the bill, it would be fully offset by an increased reduction from the general school aids of all school districts, which could be offset by a corresponding increase to the levy under revenue limits.

17. The state has a number of formulas for payments under various K-12 programs, including choice, charter and open enrollment. Rather than maintain disparate payment amounts across these programs, the Committee could choose to equate the choice and charter payments to the open enrollment payment. The per pupil transfer amount under the open enrollment program was initially recommended by the Joint Legislative Council Special Committee on Public School Open Enrollment and enacted in 1997 Act 27 as part of the enabling legislation. The per pupil transfer amount, which attempts to recognize the incremental variable cost to a school district of gaining or losing a pupil, is equal to the statewide average per pupil school district cost for regular instruction, co-curricular activities, instructional support services and pupil support services in the previous school year. Based on the historical change in the payment, the open enrollment transfer amount is estimated at \$5,372 in 2003-04 and \$5,555 in 2004-05.

18. If the choice payment were set equal to the open enrollment amount, estimated per pupil payments under the program would decrease by \$411, or 7.1%, from the prior year payment in 2003-04, and increase by \$183, or 3.4%, from the prior year payment in 2004-05. Under this alternative, the choice program appropriation would be \$62,965,200 in 2003-04 and \$68,365,400 in 2004-05, a decrease of \$5,462,700 in 2003-04 and \$3,822,500 in 2004-05 compared to the bill. The net effect on the general fund (the 55% share of program costs) would be a decrease in expenditures of \$3,004,500 in 2003-04 and \$2,102,400 in 2004-05 compared to the bill. The 45% MPS lapse would decrease by \$2,458,200 in 2003-04 and \$1,720,100 in 2004-05 compared to the bill.

19. If the charter payment were set equal to the open enrollment amount, estimated per pupil payments under the program would decrease by \$1,579, or 22.7%, from the prior year payment in 2003-04, and increase by \$183, or 3.4%, from the prior year payment in 2004-05. Under this alternative, the charter program appropriation would be \$24,947,600 in 2003-04 and \$31,352,400 in 2004-05, a decrease of \$7,593,200 in 2003-04 and \$8,350,700 in 2004-05 compared to the bill. While this would represent a decrease in general fund expenditures compared to the bill, it would be fully offset by a decreased reduction from the general school aids of all school districts, which would lead to a corresponding decrease to the levy under revenue limits.

20. An alternative to set choice and charter payments to the open enrollment transfer amount would reduce funding for both programs in the biennium below base year funding. Unlike public school districts, choice and charter schools would not have the option to levy for the loss of state aid. Thus, it could be argued that it would be undesirable to decrease the payments under the programs to below their base-year level. However, these schools would have the option of seeking other non-state funding sources. Some choice schools, for example, could increase tuition payments for those pupils enrolled in the schools that do not participate in the choice program. Charter schools, for example, could seek additional federal aid.

ALTERNATIVES

1. Approve the Governor's recommendations to: (a) specify that the maximum amount paid per pupil under the Milwaukee parental choice program would be equal to the amount paid per

pupil in the prior school year adjusted by the percent change in the general school aids appropriations from the previous school year to the current school year; and (b) specify that the per pupil payment under the Milwaukee and Racine charter school program would be equal to the amount paid per pupil in the previous school year and the increase in the maximum per pupil amount paid to private schools under the choice program.

2. Delete the Governor's recommendation and, instead, specify that, beginning in 2003-04, the per pupil payments under the choice and charter programs would equal the amount paid per pupil under each of the programs in the prior school year adjusted by the percent change that the per pupil adjustment under revenue limits provided to public schools on a statewide basis in the prior school year. Provide an additional \$1,382,400 GPR in 2003-04 and \$3,315,500 GPR in 2004-05 in the choice program appropriation and increase the 45% MPS choice reduction from general school aids by \$622,100 GPR-Lapse in 2003-04 and \$1,492,000 GPR-Lapse in 2004-05, for a net GPR effect of \$760,300 in 2003-04 and \$1,823,500 in 2004-05 compared to the bill. Provide \$710,200 GPR in 2003-04 and \$1,921,400 GPR in 2004-05 in the charter program appropriation and increase the statewide charter reduction in general school aids correspondingly, for no net general fund fiscal effect compared to the bill. *(Same percentage increase as school districts receive from per pupil adjustment under revenue limits.)*

<u>Alternative 2</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
2003-05 FUNDING (Change to Bill)	\$7,329,500	\$4,745,700	\$2,583,800

3. Delete the Governor's recommendation and, instead, specify that, beginning in 2003-04, the per pupil payments under the choice and charter programs be equal to the transfer amount under the open enrollment program. Delete \$5,462,700 GPR in 2003-04 and \$3,822,500 GPR in 2004-05 in the choice program appropriation and reduce the 45% MPS choice general school aids reduction by \$2,458,200 GPR-Lapse in 2003-04 and \$1,720,100 GPR-Lapse in 2004-05, for a net GPR effect of -\$3,004,500 in 2003-04 and -\$2,102,400 in 2004-05 compared to the bill. Delete \$7,593,200 GPR in 2003-04 and \$8,350,700 GPR in 2004-05 in the charter program appropriation and decrease the statewide charter reduction correspondingly, for no net general fund fiscal effect compared to the bill. *(Choice and charter schools receive open enrollment transfer amount for each pupil.)*

<u>Alternative 3</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
2003-05 FUNDING (Change to Bill)	-\$25,229,100	-\$20,122,200	-\$5,106,900

4. Delete provision. Provide \$2,132,500 GPR in 2003-04 and \$4,890,800 GPR in 2004-05 in the choice program appropriation and increase the 45% MPS choice reduction by \$959,600 GPR-Lapse in 2003-04 and \$2,200,900 GPR-Lapse in 2004-05, for a net GPR effect of \$1,172,900 in 2003-04 and \$2,689,900 in 2004-05. Provide \$840,300 GPR in 2003-04 and \$2,238,300 GPR in 2004-05 in the charter program appropriation and increase the statewide charter reduction correspondingly, for no net general fund fiscal effect.

<u>Alternative 4</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
2003-05 FUNDING (Change to Bill)	\$10,101,900	\$6,239,100	\$3,862,800

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