

AGENCY: DPI -- Choice, Charter and Open Enrollment

ISSUE: Choice Student Eligibility (Paper 750)

ALTERNATIVE: A2 and B3 (take no action)

*Gard - A-1  
B-2*

SUMMARY:

This would expand eligibility for choice by raising the family income threshold to 185% of poverty from the current 175%.

This was a priority for Rep. Gard in last budget. Oddly, this paper contains no cost estimates.

Given current budget constraints, this is not a time to consider expanding the program.

BY: Bob

A-2

B-3

OK



## Legislative Fiscal Bureau

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May 29, 2001

Joint Committee on Finance

Paper #750

### **Milwaukee Parental Choice Program Student Eligibility (DPI -- Choice, Charter and Open Enrollment)**

[LFB 2001-03 Budget Summary: Page 545, #2]

#### **CURRENT LAW**

Since 1990-91, state funds have been used to pay for the cost of children from low-income families to attend private nonsectarian schools located in Milwaukee. After resolution of litigation relating to the program, private sectarian schools began participating in the program in 1998-99. Pupil participation is limited to pupils in grades K-12 with family incomes less than 175 percent of the federal poverty level (FPL) who reside in the City of Milwaukee. The limit on the number of pupils who can participate in the program is 15 percent of the MPS membership. 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.

#### **GOVERNOR**

Provide that a pupil who is a member of a family that has a total family income that does not exceed 185 percent of the FPL, rather than the current law 175 percent, would be eligible to participate in the Milwaukee parental choice program.

Provide that a pupil who attends a choice school is eligible to attend a choice school in succeeding school years even if the pupil's family no longer meets the family income criteria.

Specify that these changes would first apply to pupils who apply to participate in the program in the 2002-03 school year.

## DISCUSSION POINTS

1. Administration officials indicate that the provision changing the participation threshold for the choice program from 175 to 185 percent of the FPL is intended to make the eligibility criteria for the choice program consistent with the criteria for other programs intended to assist low-income families. Under the federal free or reduced-price lunch program, for example, a student is eligible for a reduced price lunch if he or she is a member of a household that has an income at or below 185 percent of the FPL. Eligibility for a free or reduced-price lunch is also the criteria for state school nutrition programs, such as the school breakfast, school lunch and morning milk programs. Under the full-time open enrollment program, parents of pupils who are eligible for the free or reduced-price lunch program may apply to DPI for reimbursement of transportation costs, while under the part-time open enrollment and youth options programs, DPI must give these parents preference in reimbursing for transportation costs. Table 1 shows the income amounts associated with 175 and 185 percent of the FPL for various household sizes as calculated for the choice program for the 2001-02 school year.

**TABLE 1**

### Selected Percentages of the Federal Poverty Level

Household Size	Percent of the FPL		
	175	185	200
1	\$15,139	\$16,004	\$17,301
2	20,396	21,562	23,310
3	25,654	27,120	29,319
4	30,912	32,678	35,328
5	36,169	38,236	41,336
6	41,427	43,794	47,345
7	46,685	49,352	53,354
8	51,942	54,911	59,363

2. While the receipt of benefits in other non-education related state programs, such as BadgerCare, WIC and the child care subsidy program, is also set initially at 185 percent of the FPL, the eligibility criteria for other state programs are not set at that level. Examples of such programs include subsidized employment benefits, job access loans and community reinvestment programs under the Wisconsin Works (W-2) program, food stamps, the early childhood excellence program and the workforce attachment and advancement program. The eligibility criteria for these programs range from 115 to 200 percent of the FPL. Given that other programs designed to assist low-income families have a range of eligibility thresholds, it could be argued that it is unnecessary to alter the threshold for participation in the choice program.

3. Administration officials indicate that the provision allowing a pupil who attends a choice school to remain eligible to attend a choice school even if the pupil's family no longer meets

the family income criteria in subsequent school years is intended to allow for greater educational continuity for children that participate in the program. Under current law, for example, a choice student's family could make enough additional income in a particular year to lose eligibility under the choice program but not enough to cover the private school's tuition charge for non-choice pupils. This could prove disruptive to a child's educational experience, especially if the student's family's income does not consistently remain either above or below 175% of the poverty threshold.

4. Administration officials also indicate that allowing a pupil to remain eligible under the choice program regardless of current income would help simplify administration of the program for DPI and families participating in the choice program. Under the bill, the Department would not have to redetermine eligibility on an annual basis.

5. This bill provision, however, would allow a child in a household to remain in the choice program regardless of the family's income, no matter how far above 175 percent of the FPL that income may be. To the extent that families with income above the 175 percent threshold would participate in the program under this provision, it could weaken the intent of the program to provide access to private education for students from low-income families.

6. In September, 1999, 7,996 pupils participated in the choice program. Of these pupils, 5,790 were participating in the choice program in September, 2000. It is not clear how many of the 2,206 pupils who were in the program in September, 1999, but not September, 2000, left the program because their family household income exceeded the poverty threshold and how many left because of other reasons.

7. While initial eligibility for BadgerCare and the child care subsidy program is set at 185 percent of the FPL, recipients retain eligibility until income reaches 200 percent of the FPL. A similar criterion for continuing eligibility could be established for the choice program. This would allow a pupil to remain in a choice school even if his or her family's income went somewhat over the threshold, but still maintain the focus of the program to serve low-income children. Table 1 shows the income amounts associated with 185 and 200 percent of the FPL for various household sizes as calculated for the choice program for the 2001-02 school year.

8. Sufficient data is not available to estimate the effect of each of these individual changes on the choice program. Administration officials indicate that they did not estimate the individual effect of each of the choice eligibility provisions in the bill on program participation. Rather, in estimating the total amount of payments from the sum sufficient choice appropriation for the 2001-03 biennium, DOA estimated that program participation would be somewhat higher than it would have been without the eligibility provisions. Under the provisions of the bill, DOA staff estimate that 10,580 students in 2001-02 and 11,850 students in 2002-03 will participate in the choice program, with \$58.7 million in 2001-02 and \$68.3 million in 2002-03 appropriated under the bill for choice program payments.

9. One could view the various changes to the choice eligibility provisions in the bill in the overall context of program participation. The limit on the number of pupils who can participate

in the choice program is 15 percent of the MPS membership, which in 2000-01 resulted in a limit of approximately 15,100 pupils. If the anticipated growth in program participation in this biennium continues, the program could reach the participation limit sometime in the middle of the decade. Assuming continued growth in the program, it could be argued that eligibility should be maintained at current law standards to delay the point at which space under the program would be prorated, which could prove disruptive to future students' educational experiences.

10. However, DOA staff estimate that the cumulative results of the changes proposed in the bill are relatively minor given the increases in the program that would still result under current law provisions. Thus, the changes might not have an appreciable effect on the rate of growth in the program and the point at which the number of spaces available under the program would be prorated.

**ALTERNATIVES TO BASE**

**A. Poverty Threshold**

1. Approve the Governor's recommendation to specify that a pupil who is a member of a family that has a total family income that does not exceed 185 percent of the federal poverty level would be eligible to participate in the Milwaukee parental choice program.

2. Take no action.

**B. Continuing Eligibility**

1. Approve the Governor's recommendation to specify that a pupil who attends a choice school would be eligible to attend a choice school in succeeding school years even if the pupil's family no longer meets the family income criteria.

2. Specify that a pupil who attends a choice school would be eligible to attend a choice school in succeeding school years even if the pupil's family no longer meets the family income criteria, as long as total family income is no longer meets the family income cent of the federal poverty level.

3. Take no action.

MO# A-1, B-2

BURKE	Y	<input checked="" type="radio"/> N	A
DECKER	Y	<input checked="" type="radio"/> N	A
MOORE	Y	<input checked="" type="radio"/> N	A
SHIBILSKI	Y	<input checked="" type="radio"/> N	A
PLACHE	Y	<input checked="" type="radio"/> N	A
WIRCH	Y	<input checked="" type="radio"/> N	A
DARLING	<input checked="" type="radio"/> Y	N	A
WELCH	<input checked="" type="radio"/> Y	N	A
GARD	<input checked="" type="radio"/> Y	N	A
KAUFERT	<input checked="" type="radio"/> Y	N	A
ALBERS	<input checked="" type="radio"/> Y	N	A
DUFF	<input checked="" type="radio"/> Y	N	A
WARD	<input checked="" type="radio"/> Y	N	A
HUEBSCH	<input checked="" type="radio"/> Y	N	A
HUBER	Y	<input checked="" type="radio"/> N	A
COGGS	Y	<input checked="" type="radio"/> N	A

Prepared by: Russ Kava

AGENCY: DPI -- Choice, Charter and Open Enrollment

ISSUE: State Aid for Summer Classes for Milwaukee Charter Schools (751)

ALTERNATIVE: 2 (maintain current law)

*Gard - 2*

SUMMARY:

While a good case can be made for why these schools should get additional help with summer school offerings, in the current budget situation, and until summer programs are better funded across the board, it is hard to justify this additional spending.

BY: Bob

Alt. 2 ok  
(Moore likes Alt. 1)



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May 29, 2001

Joint Committee on Finance

Paper #751

### State Aid for Summer Classes for Milwaukee Charter Schools (DPI -- Choice, Charter and Open Enrollment)

[LFB 2001-03 Budget Summary: Page 547, #7]

#### **CURRENT LAW**

State aid for summer classes is paid to school districts and county children with disabilities education boards (CCDEBs). Any school board may elect to offer summer classes or to permit pupils to attend summer classes operated by another school district on a tuition basis if the school district of operation will accept them. School districts may not charge tuition for summer classes for pupils who are residents of the school district if the school board receives state aid for the classes. The school board may establish and collect reasonable fees for social, recreational or extracurricular summer classes and programs that are neither credited toward graduation nor aided by the state. Aid is paid for those academic summer classes or laboratory periods that are for necessary academic purposes, as defined by the State Superintendent by rule. The summer average daily membership equivalent is added to a district's total membership for the purpose of calculating state aid.

Summer enrollment is also taken into account when calculating a district's revenue limit. A three-year rolling average enrollment is used to calculate a school district's revenue limit. For 2000-01, the summer average daily membership equivalent was included in the total enrollment at a rate of 20% in 1998 and 1999 and 40% in 2000 and thereafter. The summer average daily membership equivalent is the total number of minutes in which pupils are enrolled in academic summer classes or laboratory periods, as defined by the State Superintendent, divided by 48,600.

Beginning in the 1999-00 school year, state aid was also paid to private schools participating in the Milwaukee parental choice program (MPCP), in addition to the school term per pupil payments. Aid for summer classes is paid in an amount equal to the result of

multiplying the total school term payment received by the school by the summer average daily membership divided by total number of school term pupils.

State aid is not currently paid for summer school classes offered by schools under the Milwaukee charter school program (MCSP).

## GOVERNOR

Require state aid to be paid to charter schools sponsored by the City of Milwaukee, UW-Milwaukee, and Milwaukee Area Technical College (MATC) be calculated to include payment for the summer average daily membership equivalent for the summer of the previous school year, beginning with payments made for summer classes held in 2001. Specify that these charter schools would receive payment for their membership, which would be defined as the sum of the number of pupils attending the charter school in the current school year and the summer average daily membership equivalent, as calculated under current law, for the summer of the previous school year.

Provide \$1,762,600 in 2001-02 and \$7,057,400 in 2002-03 over the base year funding of \$11,666,000 for the Milwaukee charter school program. Under the bill, \$13,428,600 in 2001-02 and \$18,723,400 in 2002-03 would be appropriated for the program. Of these amounts, an estimated \$416,100 in 2002-03 would be attributable to the proposal to pay aid for summer classes beginning in 2001.

## DISCUSSION POINTS

1. Summer instruction provides pupils with remedial or additional instruction as needed. School districts, charter schools operated by school districts, and CCDEBs all receive state aid for summer instruction. Summer enrollment for charter schools operated by school districts is currently included the district's membership count for state aid purposes.

2. Prior to 1997 Act 27, summer school enrollment was not included in revenue limit calculations for school districts. Act 27 required that 20% of summer enrollment be included in the number of pupils enrolled used to calculate a district's revenue limit. Under 1999 Act 9, the percentage was changed to 40% beginning with 2000, although because revenue limits are calculated on a three-year rolling average, schools will not receive the full 40% rate for summer enrollment until 2002-03. Under a separate budget provision, the Governor's recommendations would reduce the rate at which summer school enrollment would be counted for revenue limits to 25% beginning with 2001.

3. Under 1997 Act 27, the City of Milwaukee, the UW-M and the MATC are authorized to establish by charter and operate, or contract with a group or individual to operate, a charter school. The first schools under this provision were established in 1998-99. Each school must be located within MPS and pupils residing within the MPS district may attend the charter

school. Currently four schools are operating under the City's chartering authority: (a) Downtown Montessori Academy; (b) Khamit Institute; (c) YW Global Career Academy; and (d) Central City Cyberschool. UW-M established one charter school (Milwaukee Academy of Science) beginning in 2000-01.

4. Under provisions of 1999 Act 9, DPI is required to pay the operators of these 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 charter school pupils attending the school. The per pupil payment amount was \$6,494 in 2000-01 and these schools received an aggregate payment of approximately \$10.0 million in 2000-01. Total funding under the bill would be \$13.4 million in 2001-02 and \$18.7 million in 2002-03. These payments are made from a separate GPR sum sufficient appropriation established for that purpose, which is statutorily excluded from the definitions of state school aids and partial school revenues for purposes of calculating two-thirds funding. The cost of the payments from the appropriation is offset by a reduction in aid payments from the general school aid appropriation, with the savings deposited to the general fund in an amount equal to estimated payments under the program. A school district's revenue limit calculation is not affected by the MCSP reduction. Thus, a school district can increase its property tax levy to offset any aid reduction made related to the MCSP. Because this property tax is included in partial school revenues under the two-thirds funding calculation, total funding for general school aids is increased by two-thirds of the amount of the MCSP lapse, which partially offsets the statewide reduction amount.

5. Under current law, summer school membership is treated three different ways for school finance, depending on the type of school. For private schools participating in the Milwaukee parental choice program, summer school FTE membership receives 100% of the state per pupil payment for pupils at that school; in 2000-01, that payment is the lesser of \$5,326 or the private school's operating and debt service cost per pupil related to educational programming. For public school districts, 100% of summer school FTE membership is counted for aid purposes, but only 40% under revenue limits, which directly affect the resources available to the school district to operate summer school. On average, counting 40% of summer school FTE membership would have generated an estimated \$2,940 per pupil for purposes of revenue limits in 2000-01, if the 40% factor had been fully effective in that year. Finally, while MCSP schools receive a per pupil payment in 2000-01 of \$6,494, which exceeds the per pupil payment received by Milwaukee parental choice program schools by \$1,168, they currently receive nothing for summer school FTE membership.

6. Under the Governor's budget recommendations, summer school membership would be treated two different ways for school finance. For schools participating in the MCSP or in the Milwaukee parental choice program, summer school FTE membership would receive 100% of the state per pupil payment for pupils at that school. For public school districts, 100% of summer school FTE membership would be counted for aid purposes, but only 25% would be counted under revenue limits that directly affect the resources available to the school district to operate summer school.

7. Milwaukee charter schools have not yet provided summer classes for their pupils

because they would not receive state aid for those classes. According to DOA officials, because summer classes are not currently offered and due to the uncertainty over whether this provision will be included in the final budget, Milwaukee charter schools are not expected to offer summer classes in the summer of 2001. Therefore, payments for summer school aid would most likely need to be made in 2002-03, for the summer of 2002. Although it is difficult to estimate how many pupils might participate in summer school since no classes are currently offered, based on summer school participation rates under the Milwaukee parental choice program, it is estimated that if summer instruction were aided for 2002, approximately 60 FTE would likely be added to the total Milwaukee charter school membership. Under the Governor's budget recommendations, the per pupil payment amount would be \$6,935 in 2002-03, so the total Milwaukee charter school payment would be increased by an estimated \$416,100 by this proposal and a corresponding reduction in general school aids would occur. Because of this projected increase in MCSP payments and the associated general school aids reduction and school property tax increase, general school aids funding in the budget bill includes an additional \$277,400 in 2002-03 in order to maintain two-thirds funding of partial school revenues.

**ALTERNATIVES TO BASE**

1. Approve the Governor's proposal to pay state aid for summer classes to charter schools sponsored by the City of Milwaukee, UW-Milwaukee and the Milwaukee Area Technical College. Specify that these charter schools would receive payment for their membership, which would be defined as the sum of the number of pupils attending the charter school in the current school year and the summer average daily membership equivalent, as calculated under current law, for the summer of the previous school year, beginning with payments made for summer classes held in 2001. Provide \$416,100 in 2002-03 to fund the costs of this modification, which would result in an offsetting reduction in general school aids (GPR-Lapse) of \$416,100 and a corresponding increase in school property taxes. Provide \$277,400 in general school aids to maintain state two-thirds funding of partial school revenues.

<u>Alternative 1</u>	<u>GPR</u>	<u>GPR-Lapse</u>
2001-03 FUNDING (Change to Base)	\$693,500	\$416,100
[Change to Bill]	\$0	\$0

2. Maintain current law.

<u>Alternative 2</u>	<u>GPR</u>	<u>GPR-Lapse</u>
2001-03 FUNDING (Change to Base)	\$0	\$0
[Change to Bill]	-\$693,500	-\$416,100

Prepared by: Layla Merrifield

AGENCY: DPI -- Choice, Charter...

ISSUE: Open Enrollment and Tuition Payment (Paper 752)

ALTERNATIVE: A2 and B2 (take no action)

*Guard - A-1  
B-1*

SUMMARY:

This change was not sought by DPI and is opposed by MPS and WEAC. The current method is working. No need for this change.

BY: Bob

A-2

B-2

AK



## Legislative Fiscal Bureau

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May 29, 2001 Joint Committee on Finance Paper #752

### Open Enrollment and Tuition Payment Amount (DPI -- Choice, Charter and Open Enrollment)

[LFB 2001-03 Budget Summary: Page 547, #8]

#### CURRENT LAW

Since the 1998-99 school year, a pupil has been able to attend any public school located outside his or her school district of residence under the full-time open enrollment program, if the pupil's parent or guardian complies with certain application dates and procedures. The Department of Public Instruction (DPI) is required to annually determine a per pupil transfer amount under the program 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. A school district's equalization aid is increased or decreased by an amount equal to the per pupil transfer amount multiplied by the school district's net gain or loss of pupils under the open enrollment program.

State aid adjustments made under the open enrollment program are not considered in determining a school district's revenue limit. Thus, the increase in state aid payments to a school district that has a net gain in pupils is not included in that school district's revenues that are subject to its revenue limit. A school district that experiences a net decrease in equalization aid may not increase its property tax levy to compensate for the state aid loss.

The resident school district counts the pupil in its membership and includes the costs for state aid purposes. In other words, the resident district receives state aid as though the pupil were enrolled in that school district. DPI is required to ensure that the aid adjustment between school districts does not affect the amount of equalization aid determined to be received by the school for any other purposes.

Generally, if a pupil does not participate in the open enrollment program but still attends a public school outside the school district in which he or she resides, the pupil's parent or

guardian pays tuition. This amount is calculated in the same manner as the per pupil payment under the full-time open enrollment program.

## GOVERNOR

Specify that the per pupil transfer amount for state aid adjustment purposes under the full-time open enrollment program and for tuition payments for parents equal two-thirds of the statewide average per pupil school district cost in the previous year. Specify that this provision first applies to state aid adjustments in the 2001-02 school year as it relates to the open enrollment program and that it first applies to tuition payments made by parents in the 2002-03 school year.

## DISCUSSION POINTS

1. Under current law, the estimated 2000-01 per pupil transfer amount is \$4,858. It is estimated that this amount would have been approximately \$5,700 in 2000-01 had this budget provision been in effect in that year. This would have been a 17.3% increase in the per pupil transfer amount.

2. Administration staff indicate that this provision was included in the budget bill to more accurately reflect the costs incurred by districts that accept open enrollment students and the cost reduction experienced by districts that lose pupils under the program. Specifically, DOA staff indicate that some costs for administration and transportation, which would arguably vary with the number of pupils served, should be reflected in the transfer amount. Rather than include additional categories in the calculation, however, the administration indicates that it chose to move to the two-thirds of total district cost per pupil measure given the difficulty of trying to determine an appropriate average marginal cost per pupil measure for the state.

3. 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 original program. In its recommendations, the Special Committee recognized that no funding mechanism would accurately reflect the fiscal effect on each school district of gaining or losing a pupil under open enrollment. The Special Committee attempted to recognize the incremental cost to the school district of gaining or losing a pupil by basing its funding proposal on costs which are most likely to vary with the number of pupils served, such as the four categories included under current law, and excluding fixed costs which are less likely to vary with the number of pupils served, such as building operations and maintenance, administration and debt service costs.

4. DOA staff also indicate that increasing the per pupil transfer amount could encourage growth in the program. By increasing the financial incentives for districts under the program, districts may be encouraged to better utilize existing facilities to create additional spaces for nonresident pupils who want the opportunity to attend school in the district.

5. Some would argue, however, that districts would be unlikely to expand or be able to utilize their physical plants in such a way as to be able to accommodate significant numbers of additional students. Parental preferences also play a role in determining participation under the program, which would likely be independent of district capacity. Also, the statutes provide that districts may, if authorized under board resolution, reject applications only if there is no space available in the schools, programs, classes or grades within the nonresident district. Thus, changes in the per pupil transfer amount may not have a relatively large impact on program participation.

6. Increasing the per pupil transfer amount could also provide additional incentives for districts to improve their educational programs. Proponents of open enrollment argue that if a school district is faced with the possibility of losing students, and thus a larger amount of aid, under the program, it would have an incentive to improve its education programming to be more responsive to the concerns of parents and students. By increasing the per pupil transfer amount under the program, it could increase the marginal pressure on districts to improve programming and be more responsive to the needs of parents and students, possibly in ways that do not involve funding.

7. Those opposed to changing the per pupil transfer amount argue that transferring more aid from those districts experiencing a net loss of students under the program would leave those districts with even fewer resources with which to improve their programs. As a result, districts with a relatively large net transfer of students out of the district would be less able to improve programming and would be further hampered in their ability to retain students. In addition, as a result of having even less aid under the Governor's provision, programming for those students whose parents choose to have them remain in such a district could be hurt as well.

8. In 1999-00, a total of 4,859 students out of a total statewide membership of 868,274 students transferred to another school district under the open enrollment program. The district with the greatest number of transfers out under the program in 1999-00 (Milwaukee) lost 420 students, while the district with the greatest number of transfers in (Wauwatosa) gained 103 students. In total, 80% of all districts in the state had transfers under the program that ranged from a net loss of twelve students to a net gain of 15 students.

9. In percentage terms, nearly 0.6% of the total statewide membership in 1999-00 transferred to another district under open enrollment. The district with the largest percentage loss of students (Menominee Indian) lost a number of pupils equal to nearly 4.3% of its membership, while the district with the largest percentage gain of transfers (Linn J4) gained a number of pupils equal to over 24.6% of its membership. In total, 80% of all districts in the state had transfers under the program ranging from a loss of 1.2% to gain of 1.6% of their memberships.

10. In 1999-00, a total of over \$9.6 million in per pupil aid transfers were made between school districts under the program. Had the Governor's provision been in effect in 1999-00, a total of nearly \$11.4 million in transfers between districts would have been made, an increase of approximately \$1.8 million. The largest net loser under open enrollment would have lost an additional \$364,200 had the Governor's provision been in effect in 1999-00, while the largest net

gainer would have gained an additional \$89,300. In total, 80% of all districts in the state would have experienced a net aid effect of between -\$10,400 and \$13,000.

11. Another way to consider the fiscal effect of the higher per pupil transfer amount would be to look at the aid loss in the context of a district's revenue limit. The district that would have lost the largest percent of its revenue limit had the Governor's provision been in effect in 1999-00 would have lost an amount equal to -0.6% of its limit, while the district that would have gained the largest percent would have gained an amount equal to 1.9% of its limit. In total, 80% of all districts in the state would experience a net transfer of an amount equal to between -0.1% and 0.2% of its revenue limit.

### **Tuition Payments by Parents**

12. In general, the full-time open enrollment program was designed to reduce the need for parents to pay tuition for their children to attend school in a nonresident school district. A nonresident school district must generally accept a pupil under open enrollment if there is space available, with exceptions made for students involved in disciplinary proceedings or students needing special education or related services that are not available in the district.

13. However, a parent who did not apply to have their child accepted under open enrollment could choose to pay tuition to a nonresident district if the district has space available. Also, if a school district has denied applications under open enrollment and later finds it has unanticipated space, the district may accept pupils whose parents are willing to pay tuition. In addition, if a resident district denies a pupil's transfer under open enrollment, the parent may still choose to pay tuition to a nonresident district. Finally, parents would have to pay tuition if they want their child to attend a prekindergarten, four-year-old kindergarten, early childhood or school-operated day care program outside his or her district of residence if the pupil's district of residence does not offer the same type of program that the pupil wishes to attend or the pupil is not eligible to attend that program in his or her school district of residence.

14. Prior to 1999 Act 117, tuition payments by parents were set equal to the full tuition rate under the state tuition formula. The statutory calculation is structured so a district can recover local and state revenues that the district does not collect when a student is not a resident of the district. This amount is determined by netting out costs of services and offsetting revenues, with adjustments made for pupils who need special education or related services and for pupils who do not receive transportation by the district.

15. In each of the last five school years, between 450 and 650 students attended schools outside of their district on a tuition-paying basis. The membership data collected by DPI does not differentiate between students that need special education or related services and those that do not. DPI estimates that tuition payments under the prior law calculation for 2000-01 for students not needing special education or related services would have ranged from approximately \$6,500 to \$8,800. Thus, the Governor's provision, had it been in effect in 2000-01 would have represented a higher cost for those pupils paying tuition than under current law, but a lower cost compared to the

law prior to 1999 Act 117.

16. Administration staff indicate that the increase in the tuition payment amount was linked to the increase in the open enrollment transfer amount to maintain the consistency between the two calculations that was established in 1999 Act 117. Using the same calculation for both amounts would also maintain the same marginal gain for a school district that accepts nonresident students, whether on an open enrollment basis or a tuition-paying basis.

17. However, given that 1999 Act 117 generally reduced the tuition payment amount, if the Committee chooses to increase the open enrollment per pupil transfer amount, the tuition payment amount could still be maintained at its current law level. This would recognize that parents generally have less resources to send a child to a nonresident district than a school district losing a pupil to another district.

## ALTERNATIVES TO BASE

### A. Open Enrollment

1. Approve the Governor's recommendation to set the per pupil transfer amount for state aid adjustment purposes under the full-time open enrollment program, beginning in the 2001-02 school year, equal two-thirds of the statewide average per pupil school district cost in the previous year.

2. Take no action.

### B. Tuition Payments by Parents

1. Approve the Governor's recommendation to set tuition payment amount for parents, beginning in the 2002-03 school year, equal two-thirds of the statewide average per pupil school district cost in the previous year.

2. Take no action.

MO# \_\_\_\_\_

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A

GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

Prepared by: Russ Kava

AYE \_\_\_\_\_ NO \_\_\_\_\_ ABS \_\_\_\_\_

AGENCY: DPI -- Choice, Charter....

ISSUE: Funding Mechanism for Milwaukee Parental Choice (Paper 753)

ALTERNATIVE: Take no action.

SUMMARY:

Alternative 5 comes closest to keeping the status quo with the program, while neutralizing the impact on out-state districts. Some win, some lose, but in the long run, funding wouldn't be much of an issue for the rest of the state after this.

Obviously, there are other forces at work here. The Decker amendment, etc.

Taking no action and moving on might be the best course, and ultimately is consistent with Sen. Chvala's stated belief that this is best worked out in caucus.

ON THE SUMMARY PAGE FOR THIS SECTION, ITEM 3 SHOULD BE PULLED OUT, IT IS THE THOMAS MORE LANGUAGE. DECKER WAS WILLING TO MAKE THE MOTION.

BY: Bob

PUBLIC INSTRUCTION -- CHOICE, CHARTER AND OPEN ENROLLMENT

Milwaukee Parental Choice Program and Special Education Funding

[LFB Paper #753]

Motion:

Move to make the following modifications to the Milwaukee parental choice program: (a) eliminate the reduction from the general school aids appropriation in an amount equal to the estimated payments under the program; (b) limit participation in the program to 10,580 pupils; (c) specify that the per pupil payment amount under the program in the 2001-02 school year be set at \$2,000 for a student in grades K-8 student and at \$3,000 for a student in grades 9-12; (d) specify that the per pupil payment amount under the program in the 2002-03 school year and in subsequent school years be set at \$1,000 for a student in grades K-8 student and at \$1,500 for a student in grades 9-12; (e) change the appropriation for the program from a sum sufficient appropriation to a sum certain appropriation; (f) specify that if the funding in the appropriation is insufficient to fund program payments, the payments be prorated; (g) delete the provision that eligible students attend a choice school at no charge; and (h) delete the requirement that choice schools annually submit an independent financial audit of the school to DPI.

Provide \$10,000,000 in 2001-02 and \$15,000,000 in 2002-03 for special education aids. Delete \$3,333,300 in 2001-02 and \$5,000,000 in 2002-03 for general school aids to adjust two-thirds funding.

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Note:

Under the bill, the state would expend an estimated \$58,679,700 in 2001-02 and \$68,331,700 in 2002-03 from the choice program appropriation. These amounts represent the cost of providing estimated per pupil payments under the program of \$5,546 to 10,580 pupils in 2001-02 and \$5,766 to 11,850 pupils in 2002-03. Expenditures under the program will be offset by an equivalent reduction from the general school aids appropriation, with the general schools aids for which MPS is eligible reduced by half of the total choice reduction amount and the general school aids for which the other 425 school districts are eligible reduced proportionately in an amount totaling the other half. As a result of the aid reduction and levy offset provisions

under current law, general school aids funding will be approximately \$39.1 million higher in 2001-02 and \$45.6 million higher in 2002-03 than it would be in the absence of these provisions.

Under this motion, the reduction from the general school aids appropriation in an amount equal to the estimated payments made from the choice appropriation would be eliminated, resulting in full state funding of the choice program. This would make the general fund pay for the entire cost of the choice program. In addition, the motion would reduce the per pupil payment under the program to the amounts specified in the motion. As a result of eliminating the choice reduction, there would be no choice levy offset, and general school aids would decrease by two-thirds of the choice reduction amount. As a result of reducing the per pupil choice payment, the estimated cost of the choice appropriation would be reduced by one-third.

To the extent that the reduced payment amount would reduce participation in the choice program, it is possible that some pupils that would otherwise have participated in choice program would enroll in Milwaukee Public Schools. Under revenue limits, one-third of the number of pupils that otherwise would have participated in the choice program that instead enroll in MPS would count immediately under the three-year rolling average of enrollment. Revenue limits for MPS would fully reflect the addition of the number of choice pupils only in the third year.

An increase to revenue limits would increase partial school revenues and therefore increase the cost of maintaining the state's two-thirds funding goal. MPS' membership count for revenue limit purposes has declined from 1998 to 1999 to 2000, and is projected to continue declining in 2001 and 2002. Given that revenue limits are calculated using a three-year rolling average, up to 2,700 pupils in 2001-02 and in 2002-03 could potentially move from a choice school to an MPS school and offset declining enrollment.

Under current law, if a school district's three-year rolling average pupil enrollment was less than the prior year three-year rolling average, the district receives a positive, nonrecurring adjustment to its revenue limit in a dollar amount equal to 75% of what the decline in the three-year rolling average memberships would have generated. Thus, the first 2,700 pupils would generate additional partial school revenues equal to the remaining 25% of the dollar amount not provided under the declining enrollment adjustment. For every 1,000 pupils added below the declining enrollment threshold, revenue limits would increase by approximately \$0.7 million in 2001-02 and \$2.5 million in 2002-03, with \$0.5 million in 2001-02 and \$1.7 million in 2002-03 in general school aids needed to maintain two-thirds funding. For every 1,000 pupils added above the declining enrollment threshold, revenue limits would increase by approximately \$1.6 million in 2001-02 and \$3.5 million in 2002-03, with \$1.1 million in 2001-02 and \$2.3 million in 2002-03 in general school aids needed to maintain two-thirds funding.

Under this motion, no funding would be provided for general school aids to maintain two-thirds funding of partial school revenues that would result from any increase to the MPS revenue limit as a result of higher membership. Because the number of students by which MPS membership would increase is unknown, the estimated fiscal effect of maintaining two-thirds funding of partial school revenues as a result of any increase in MPS membership is indeterminate.

Because shared costs are aided on a prior year basis under the equalization formula, any additional costs incurred by MPS in 2001-02 under this motion would be aided in 2002-03. Further, to the extent that MPS' membership and shared costs increase, this could result in a shift in equalization aid to MPS from other districts in the year after the members and costs are added.

Under this motion, the GPR lapse attributable to the choice program would be reduced by \$58,679,700 in 2001-02 and \$68,331,700 in 2002-03. General school aids funding would be reduced by \$39,119,800 in 2001-02 and \$45,554,500 in 2002-03. Choice program payment funding would be reduced by \$35,919,700 in 2001-02 and \$56,951,700 in 2002-03.

The motion would provide \$25 million for special education aids in the 2001-03 biennium.

Under the two-thirds funding calculation, if funding for categorical aids is increased, there is a reduction in general school aids equal to one-third of the increase. This reduction is made so that total state aid does not exceed the goal of two-thirds funding of partial school revenues. The motion would therefore reduce general school aids by \$3,333,300 GPR in 2001-02 and \$5,000,000 GPR in 2002-03.

[Change to Base: -\$160,879,000 GPR; -\$127,011,400 GPR-Lapse; Net Change to Spending: -\$33,867,600 GPR]

[Change to Bill: -\$177,545,700 GPR; -\$127,011,400 GPR-Lapse; Net Change to Spending: -\$50,534,300 GPR]

MO#			
	BURKE	Y	(N) A
1	DECKER	(Y)	(N) A
	MOORE	Y	(N) A
2	SHIBILSKI	(Y)	(N) A
	PLACHE	(Y)	(N) A
	WIRCH	(Y)	(N) A
	DARLING	Y	(N) A
	WELCH	Y	(N) A
	GARD	Y	(N) A
	KAUFERT	Y	(N) A
	ALBERS	Y	(N) A
	DUFF	Y	(N) A
	WARD	Y	(N) A
	HUEBSCH	Y	(N) A
	HUBER	(Y)	(N) A
	COGGS	Y	(N) A

AYE 5 NO 11 ABS \_\_\_\_\_

Director fall back motion  
fully fund special ed + SAGE

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fall back - no action  
per Doug

Given press release later  
today (compromise position)

Director motion - cap students at  
next years projected levels

- reduce reimbursement rate
- pull choice out of school  
funding formula
- schools can charge diff  
between paid rate + school  
cost



## Legislative Fiscal Bureau

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

May 29, 2001

Joint Committee on Finance

Paper #753

### **Funding Mechanism for the Milwaukee Parental Choice and Milwaukee Charter School Programs (DPI -- Choice, Charter and Open Enrollment)**

On May 8, 2001, the Legislative Fiscal Bureau distributed a memorandum to the members of the Wisconsin Legislature providing information on the Milwaukee parental choice program. The memorandum: (a) presents an overview of general school aids; (b) describes the choice program; (c) explains the current law funding provisions related to the choice program; (d) discusses the fiscal effect of alternative funding scenarios for the choice program; and (e) considers the hypothetical effect of the elimination of the choice program. A copy of the memorandum is attached to this paper.

The Governor's budget bill would maintain the current law funding mechanism for the Milwaukee parental choice program. The state will expend an estimated \$58.7 million in 2001-02 and \$68.3 million in 2002-03 from the appropriation for payments under the choice program. These expenditures will be offset by an equivalent reduction from the general school aids appropriation, with the general schools aids for which MPS is eligible reduced by half of the total choice reduction amount and the general school aids for which the other 425 school districts are eligible reduced proportionately in an amount totaling the other half.

The Governor's budget bill also maintains the current law funding mechanism for the Milwaukee charter school program. The state will expend an estimated \$13.4 million in 2001-02 and \$18.7 million in 2002-03 from the appropriation for payments under the charter program. These expenditures will be offset by an equivalent reduction from the general school aids appropriation, with the general schools aids for which all school districts are eligible, including MPS, being reduced proportionately in an amount equal to the total charter reduction.

The May 8 memorandum presented six alternative funding mechanisms for the choice program, and discussed the fiscal effect of each alternative had it been in effect in 2000-01. The following section presents each of the six alternatives and shows the general fund fiscal effect of each. Because the funding for the Milwaukee charter school program presents similar issues as

Public Instruction -- Choice, Charter and Open Enrollment (Paper #753)

funding for the choice program, the alternatives have been structured to include both the choice and charter programs.

To facilitate comparison, information on certain elements of each alternative is presented in the following pages. In each case, estimates of partial school revenues, funding for general school aids, direct aid reductions attributable to the choice and charter programs for MPS and other school districts, net general school aids, payments for the choice and charter programs and the net change to the bill/base are shown.

It should be noted that the general school aids amounts shown in the tables are the amounts needed to maintain two-thirds funding under estimates of projected K-12 partial school revenues in the 2001-03 biennium under current law revenue limit provisions and base funding of categorical aids. In addition, while it is impossible to project the charter reduction for any district in the 2001-03 biennium since the reduction depends on aid eligibility in a future year, the amount shown in the tables for the MPS charter reduction for illustrative purposes assume that the proportion of the charter reduction taken by MPS in 2000-01 (15%) would apply in each year of the 2001-03 biennium. Current law calculations are shown in the table under Alternative 7.

Alternative 7. This alternative provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium.

Alternative 8. This alternative provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium.

Alternative 9. This alternative provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium.

Alternative 10. This alternative provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium. This alternative also provides for a revenue limit provision that would allow a district to exceed the current law revenue limit by up to 10% of the current law revenue limit for the 2001-03 biennium.

## ALTERNATIVE 1

### Restore Prior Law (to Base)

Modify current law to: (a) include choice and charter pupils in MPS membership for general school aids purposes, including a component of pupils who would be counted on a current year basis; (b) include choice and charter pupils in the three-year rolling averages used under revenue limits, but delete them on a prior year basis; and (c) specify that the equalization aid received by MPS would be reduced by an amount equal to the estimated cost of the choice and charter programs. *[As a result of MPS being able to include some choice and charter students in its membership for revenue limit purposes, statewide total maximum allowable revenues would increase by nearly \$4.0 million in 2001-02 and nearly \$9.9 million in 2002-03 with \$2.7 million in 2001-02 and \$6.6 million in 2002-03 needed to maintain two-thirds funding.]*

<u>Alternative 1</u>	<u>GPR</u>
2001-03 FUNDING (Change to Base)	\$9,300,000
[Change to Bill]	\$9,300,000]

Alternative 1 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,671.2	\$7,956.4
s.20.255(2)(ac) -- General School Aids*	\$4,113.5	\$4,303.5
Choice Reduction - MPS	58.7	68.3
Charter Reduction - MPS	13.4	18.7
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	0.0	0.0
Net General School Aids	\$4,041.4	\$4,216.5
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	\$2.7	\$6.6

\*Of the amounts shown, \$48.1 million in 2001-02 and \$58.0 million in 2002-03 in general school aids funding would be attributable to the choice and charter aid reduction and levy offset provisions.

## ALTERNATIVE 2

### Shifting the Choice and Charter Reductions to MPS (to Base)

Modify current law to: (a) delete the general school aid reductions for the choice and charter programs for non-MPS districts; and (b) specify that that the general school aids for which MPS is eligible would be reduced by 100% of the estimated cost of the choice and charter programs. *[This alternative would only change the incidence of the choice and charter reductions and thus have no effect on the general fund.]*

Alternative 2 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,667.2	\$7,946.5
s.20.255(2)(ac) -- General School Aids*	\$4,110.8	\$4,296.9
Choice Reduction - MPS	58.7	68.3
Charter Reduction - MPS	13.4	18.7
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	<u>0.0</u>	<u>0.0</u>
Net General School Aids	\$4,038.7	\$4,209.9
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	\$0.0	\$0.0

\*Of the amounts shown, \$48.1 million in 2001-02 and \$58.0 million in 2002-03 in general school aids funding would be attributable to the choice and charter aid reduction and levy offset provisions.

## ALTERNATIVE 3

### Open Enrollment Model (to Base)

Modify current law to: (a) specify that MPS would include choice and charter pupils in membership for revenue limit and general school aids purposes and that these pupils would be counted in full under revenue limits as a nonrecurring annual adjustment beginning in 2001-02, rather than phasing-in through the three-year rolling average that usually applies. This adjustment would be calculated by taking the number of choice and charter pupils times the per pupil revenue amount that MPS otherwise would receive under revenue limits; (b) specify that MPS would include the cost of the choice and charter programs in shared costs for general school aids purposes; (c) require that the equalization aid received by MPS would be reduced by an amount equal to the estimated cost of the choice and charter programs; and (d) prohibit MPS from replacing the aid reduction with property taxes. *[Under this alternative, the choice and charter aid reduction and levy offset provisions would be eliminated. As a result, the cost to maintain two-thirds funding would decrease by two-thirds of the reduction amount. As a result of MPS being able to include choice and charter pupils as annual non-recurring adjustment for revenue limit purposes, statewide total maximum allowable revenues would increase by \$95.7 million in 2001-02 and by \$114.3 million in 2002-03 with \$63.8 million in 2001-02 and \$76.2 million in 2002-03 needed to maintain two-thirds funding.]*

<u>Alternative 3</u>	<u>GPR</u>
2001-03 FUNDING (Change to Base)	\$33,900,000
[Change to Bill]	\$33,900,000

Alternative 3 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,762.9	\$8,060.8
s.20.255(2)(ac) -- General School Aids	\$4,174.6	\$4,373.1
Choice Reduction - MPS	58.7	68.3
Charter Reduction - MPS	13.4	18.7
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	0.0	0.0
Net General School Aids	\$4,102.5	\$4,286.1
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	\$63.8	\$76.2

## ALTERNATIVE 4

### Full State Funding of the Choice and Charter Programs (to Base)

Modify current law to eliminate the reduction from the general school aids appropriation in an amount equal to the estimated total payments made for the choice and charter programs. *[Under this alternative, the choice and charter aid reduction and levy offset provisions would be eliminated. As a result, the cost to maintain two-thirds funding would decrease by two-thirds of the reduction amount. The net effect to the general fund would be an increase in expenditures equal to one-third of the cost of the programs, or \$24,036,100 in 2001-02 and \$29,018,300 in 2002-03. Funding for general school aids would be reduced by \$48,072,200 in 2001-02 and \$58,036,800 in 2002-03; the aid reduction attributable to the choice and charter programs would be reduced by \$72,108,300 in 2001-03 and \$87,055,100 in 2002-03.]*

Alternative 4	GPR	GPR-Lapse
2001-03 FUNDING (Change to Base)	-\$106,109,000	-\$159,163,400
[Change to Bill]	-\$106,109,000	-\$159,163,400

Alternative 4 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,595.1	\$7,859.4
s.20.255(2)(ac) -- General School Aids	\$4,062.7	\$4,238.9
Choice Reduction - MPS	0.0	0.0
Charter Reduction - MPS	0.0	0.0
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	0.0	0.0
Net General School Aids	\$4,062.7	\$4,238.9
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	\$24.0	\$29.0

## ALTERNATIVE 5

### Two-Thirds State Funding of the Choice and Charter Programs (to Base)

Modify current law to: (a) delete the general school aid reduction for the choice and charter programs for non-MPS districts; (b) specify that the equalization aid received by MPS would be reduced by an amount equal to one-third of the estimated cost of the choice and charter programs; and (c) specify that the amount levied by MPS to offset the choice and charter reductions would not be counted in partial school revenues. *[Under this alternative, the choice and charter aid reduction would be reduced from the full cost of the programs to one-third of the cost. The offsetting MPS levy would not affect partial school revenues. As a result, the cost to maintain two-thirds funding would decrease by two-thirds of the reduction amount. There would be no net effect to the general fund. Funding for general school aids would be reduced by \$48,072,200 in 2001-02 and \$58,036,800 in 2002-03; the aid reduction (GPR-Lapse) attributable to the choice and charter programs would be reduced correspondingly.]*

Alternative 5	GPR	GPR-Lapse
2001-03 FUNDING (Change to Base)	-\$106,109,000	-\$106,109,000
[Change to Bill]	-\$106,109,000	-\$106,109,000

Alternative 5 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,595.1	\$7,859.4
s.20.255(2)(ac) -- General School Aids	\$4,062.7	\$4,238.9
Choice Reduction - MPS	19.6	22.8
Charter Reduction - MPS	4.5	6.2
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	<u>0.0</u>	<u>0.0</u>
Net General School Aids	\$4,038.7	\$4,209.9
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	\$0.0	\$0.0

## ALTERNATIVE 6

### One-Half State Funding of the Choice and Charter Programs (to Base)

Modify current law to: (a) delete the general school aid reduction for the choice and charter programs for non-MPS districts; (b) specify that the equalization aid received by MPS would be reduced by an amount equal to one-half of the estimated cost of the choice and charter programs; and (c) specify that the amount levied by MPS to offset the choice and charter reductions would not be counted in partial school revenues. *[Under this alternative, the choice and charter aid reduction would be reduced from the full cost of the programs to one-half of the cost. The offsetting MPS levy would not affect partial school revenues. As a result, the cost to maintain two-thirds funding would decrease by two-thirds of the reduction amount. The net effect to the general fund would be a reduction in expenditures equal to one-sixth of the program costs, or \$12,018,000 in 2001-02 and \$14,509,200 in 2002-03. Funding for general school aids would be reduced by \$48,072,200 in 2001-02 and \$58,036,800 in 2002-03; the aid reduction (GPR-Lapse) attributable to the choice and charter programs would be reduced by \$36,054,200 in 2001-02 and \$43,527,600 in 2002-03.]*

Alternative 6	GPR	GPR-Lapse
2001-03 FUNDING (Change to Base)	-\$106,109,000	-\$79,581,800
[Change to Bill]	-\$106,109,000	-\$79,581,800

Alternative 6 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,595.1	\$7,859.4
s.20.255(2)(ac) -- General School Aids	\$4,062.7	\$4,238.9
Choice Reduction - MPS	29.3	34.2
Charter Reduction - MPS	6.7	9.4
Choice Reduction - Other Districts	0.0	0.0
Charter Reduction - Other Districts	<u>0.0</u>	<u>0.0</u>
Net General School Aids	\$4,026.7	\$4,195.4
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Net GPR Change to Base/Bill	-\$12.0	-\$14.5

## ALTERNATIVE 7

### Take No Action (to Base)

Maintain current law.

Alternative 7 (\$ in Millions)	<u>2001-02</u>	<u>2002-03</u>
Partial School Revenues	\$7,667.2	\$7,946.5
s.20.255(2)(ac) -- General School Aids*	\$4,110.8	\$4,296.9
Choice Reduction - MPS	29.4	34.2
Charter Reduction - MPS	2.0	2.8
Choice Reduction - Other Districts	29.4	34.2
Charter Reduction - Other Districts	<u>11.4</u>	<u>15.9</u>
Net General School Aids	\$4,038.7	\$4,209.9
s.20.255(2)(fm) -- Charter Program	\$13.4	\$18.7
s.20.255(2)(fu) -- Choice Program	58.7	68.3
Base/Bill Expenditures	\$4,110.8	\$4,296.9

\*Of the amounts shown, \$48.1 million in 2001-02 and \$58.0 million in 2002-03 in general school aids funding would be attributable to the choice and charter aid reduction and levy offset provisions.

Prepared by: Russ Kava  
Attachment



## Legislative Fiscal Bureau

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

May 8, 2001

TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Funding for the Milwaukee Parental Choice Program

In response to requests from a number of legislators, this memorandum provides information on the Milwaukee parental choice program. This paper: (a) presents an overview of general school aids; (b) describes the choice program; (c) explains the current law funding provisions related to the choice program; (d) discusses the fiscal effect of alternative funding scenarios for the choice program; and (e) considers the hypothetical effect of the elimination of the choice program.

### State Two-Thirds Funding of K-12 Partial School Revenues

Under current law, the state has a goal of funding two-thirds of K-12 partial school revenues. For purposes of the two-thirds funding goal, state funding is defined as the sum of state general and categorical school aids and the school levy property tax credit. With certain limited exceptions, partial school revenues is statutorily defined as the sum of state school aids and gross school property taxes.

### General School Aids

General school aids include equalization, integration (Chapter 220) and special adjustment aids. In 2000-01, approximately \$3,931.9 million in general purpose revenue (GPR) is appropriated for general school aids. Of the total amount of funding provided, 421 school districts are eligible for \$3,843.6 million in equalization aid, 28 districts are eligible for \$86.6 million in integration aid and 17 districts are eligible for \$1.7 million in special adjustment aid.

The current three-tiered cost sharing formula was enacted in 1995 Act 27 and first applied to equalization aid paid in 1996-97. The equalization aid formula is calculated using school district

data (pupil membership, shared costs and equalized valuations) from the prior school year. There are three guaranteed valuations used in the equalization formula that are applied to three different shared cost levels. Each district receives a distinct aid amount and percentage of state support for each tier of the formula, based on its shared costs eligible for aid on that tier. Generally, a school district's total equalization aid is the sum of its aid at each tier of the formula, less required reductions for the Milwaukee choice and charter programs. The three tiers are described below.

*Primary Tier.* The first tier is for shared costs up to the primary cost ceiling of \$1,000 per member. State aid on these primary shared costs is calculated using a statutorily guaranteed valuation of \$2,000,000 per member, and is based on a comparison of the school district's equalized valuation per member to the \$2,000,000. State aid equals the amount of costs that would be funded by the missing portion of the guaranteed tax base. Every district receives at least the primary aid amount; primary aid cannot be reduced by negative aids generated at the secondary or tertiary aid levels.

*Secondary Tier.* The second tier is for shared costs that exceed \$1,000 per member but are less than the secondary cost ceiling, which is equal to \$6,533 per member in 2000-01. The secondary cost ceiling is adjusted for inflation annually. The state's sharing of secondary costs is calculated using the secondary guaranteed valuation. The secondary guarantee is not set statutorily, but is allowed to float to a level that fully distributes the available amount of funding for general school aids. In 2000-01, the secondary guaranteed valuation is \$874,011.

*Tertiary Tier.* The third tier is for shared costs that exceed the secondary cost ceiling of \$6,533 per member. State aid on these tertiary shared costs is calculated using the statewide average equalized valuation per member, which is \$303,298 in 2000-01. If a school district's tertiary aid is a negative number, this amount is deducted from its secondary aid. As noted above, if the sum of a district's secondary and tertiary aid is a negative number, this amount is not deducted from its primary aid amount.

For most school districts, equalization aid is the only type of general school aid received. The Norris School District, however, did not report any shared costs, and therefore does not qualify for equalization or special adjustment aid in 2000-01. In addition, four districts had a per pupil equalized value above the primary guaranteed valuation. These districts are not eligible to receive equalization aid in 2000-01, but do receive special adjustment aid.

Integration aid and special adjustment aid are first draws from the general school aids appropriation. Under the integration aid program, the state provides funds as an incentive for districts to voluntarily improve racial balance within and between school districts, with aid generally based on the number of pupils transferred between attendance areas or districts with certain concentrations of minority or nonminority pupil populations. Under special adjustment aid, a district is guaranteed to receive at least 85% of its prior year general school aid payment.

## Milwaukee Parental Choice Program

Since 1990-91, state funds have been used to pay for the cost of children from low-income families to attend private nonsectarian schools located in Milwaukee. After resolution of litigation relating to the program, private sectarian schools began participating in the program in 1998-99. Pupil participation is limited to eligible pupils in grades K-12 with family incomes less than 175% of the federal poverty level who reside in the City of Milwaukee. The limit on the number of pupils who can participate in the program is 15% of the Milwaukee Public Schools (MPS) membership. Pupils participating in the choice program are not included in the MPS membership count for the calculation of the District's revenue limit or equalization aid.

For each eligible pupil attending a Milwaukee choice school, the state 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, as determined by the Department of Public Instruction (DPI); 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. In 2000-01, the per pupil payment amount under the choice program is \$5,326. This payment is in the form of a check that the state sends to the private school, which the parent or guardian must restrictively endorse for the use of the private school.

DPI estimates that 9,638 members will participate in the choice program in 2000-01, which is 9.6% of the MPS membership. As of September, 2000, pupils were attending 103 private schools.

## Current Law Funding for the Choice Program

The choice program is funded from a separate GPR sum sufficient appropriation [s. 20.255(2)(fu)] established for that purpose, which is statutorily excluded from the definitions of state school aids and partial school revenues for purposes of calculating two-thirds funding. The cost of the payments from the appropriation is offset by a reduction in aid payments from the general school aids appropriation [s. 20.255(2)(ac)], with the savings deposited to the general fund in an amount equal to estimated payments under the program. This appropriation structure for 2000-01 is shown below (in millions).

General school aids -- s. 20.255(2)(ac)	\$3,931.9
Reduction to offset costs of choice	<u>-49.0</u>
Net	\$3,882.9

Milwaukee parental choice program -- s. 20.255(2)(fu)	\$49.0
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Thus, the state initially calculates general school aid payments for the state's 426 school districts at \$3,931.9 million. From that amount, \$49 million is deducted and used to offset the cost of payments for Milwaukee choice schools.

Prior to 1999 Act 9, this reduction was made by reducing the equalization aid paid to MPS by the amount needed. Under Act 9, however, this reduction is made by reducing the general school aids for which MPS is eligible by one-half of the reduction, while the general school aids for which the other 425 school districts are eligible to be paid is reduced proportionately by an amount totaling the other half. A school district's revenue limit calculation is not affected by the choice reduction. Thus, a school district can increase its property tax levy to offset any aid reduction made related to the choice program. Because this property tax levy is included in partial school revenues under the two-thirds funding calculation, total funding for general school aids is increased by two-thirds of the amount of the choice lapse, which partially offsets the statewide reduction amount.

Based on the October 15, 2000, general school aids estimate prepared by DPI, in 2000-01 general school aids statewide will be subject to a reduction of \$49.0 million for the choice program. MPS's general school aids will be reduced by \$24.5 million, or 4.1%, while the other 425 districts' aids will be reduced proportionately by a total of \$24.5 million, or 0.7% each. Although the reduction totals \$49.0 million, the net aid decrease statewide is \$16.3 million, because funding for general school aids in 2000-01 was increased by \$32.7 million more than would otherwise have been the case because of the projected \$49.0 million initial increase in the statewide levy.

While the choice program is funded from a separate appropriation that is excluded from the definition of state school aids and partial school revenues for the purpose of calculating two-thirds funding, the provisions requiring the general school aids reduction and allowing districts to levy to offset the aid reduction cause the estimated cost of the choice program to increase partial school revenues. This effective inclusion of the estimated costs of the choice program in partial school revenues results in a higher funding level for general school aids than there would otherwise be in the absence of the aid reduction and levy offset provisions.

The interaction between the choice program and the equalization formula under current law in 2000-01 is shown in Table 1. Each of the lines in the table is explained below.

**TABLE 1**  
**Choice Program Funding Interactions -- Current Law**  
**(\$ in Millions)**

	State General Fund Impact	School District School Aids		School District Local Property Taxes	
		MPS	All Others	MPS	All Others
1. Choice payment	\$49.0				
2. Offsetting state aid reduction	-49.0	-24.5	-24.5		
3. School districts levy to replace loss in state aid				24.5	24.5
4. State aid increases by two-thirds of levy increase	32.7	2.4	30.3		
5. Levy is reduced by increase in state aid				-2.4	-30.3
6. Net effect	\$32.7	-\$22.1	\$5.8	\$22.1	-\$5.8

Line 1: In 2000-01, the state made estimated total payments of \$49.0 million from the choice program appropriation. This is the amount appropriated under s. 20.255(2)(f) as shown on page 3 of this memorandum.

Line 2: This \$49.0 million expenditure is offset by the reduction from the general school aids appropriation, with half of the reduction taken from MPS aids and the other half from the other 425 districts' aids.

Line 3: As a result of the aid reduction and levy offset provisions, the gross property tax levy is initially increased by \$49.0 million given that school districts levy by the amount of the choice reduction. The MPS levy is increased by \$24.5 million, while the levy for the other 425 districts is increased, in total, by \$24.5 million.

Line 4: Because property taxes initially increase by \$49.0 million, partial school revenues are increased by \$49.0 million, and to maintain the state's two-thirds funding goal, general school aids are increased by \$32.7 million ( $\$49.0 \text{ million} \times 66.67\% = \$32.7 \text{ million}$ ). Under the equalization aid formula, the secondary guarantee is set at a level that generates equalization aid entitlements that are equal to the total amount of funds available for distribution. Since general school aids funding is \$32.7 million higher in 2000-01 as a result of the aid reduction and levy offset provisions, the secondary guarantee increased from approximately \$855,450 to be \$874,011 under current law. As a result, the state funds a greater percentage of secondary costs under current law than it would in the absence of the aid reduction and levy offset provisions. The allocation of this additional funding is determined under the equalization aid formula. Under the equalization formula, of the \$32.7 million of additional aid, MPS receives an additional \$2.4 million in aid, while the other 425 districts receive \$30.3 million.

Line 5: The increase in state aid received by districts allows them to reduce their school property tax levy by an equivalent amount, or \$32.7 million statewide. Thus, the MPS property tax levy is reduced by \$2.4 million, while the other 425 districts are able to decrease their school property tax levy by a total of \$30.3 million.

Line 6: The net effect of the aid reduction and levy offset provision is that state general fund expenditures are \$32.7 million higher as a result of the current choice funding arrangement. General school aids to MPS are \$22.1 million lower, while general school aids to the other 425 districts are increased by a total of \$5.8 million. The local school property tax levy for MPS is \$22.1 million higher, while the local school property tax levy for the other 425 districts is reduced by a total of \$5.8 million.

Not all districts in the state gain aid or reduce their levies as a result of the current choice funding arrangement, however. A total of 187 districts gain approximately \$8.5 million in aid and reduce their levies by a corresponding amount, while 237 districts, excluding MPS, lose over \$2.7 million in aid and increase their levies by a corresponding amount.

The following general observations can be made regarding the distributive effects of these provisions:

- Districts with relatively low per pupil equalized values would tend to receive less aid as a result of current law. Since these districts tend to receive a higher proportion of shared costs in equalization aid, the proportionate reduction currently required to fund the choice program tends to be greater for these districts than the gain of secondary aid that would result from the increase in the secondary guarantee under these provisions.

- Districts that receive only primary aid or special adjustment aid, generally those with relatively high per pupil equalized values, also tend to receive less aid under current law. The higher secondary guarantee does not affect the equalization aid entitlement for these districts, and the choice reduction decreases the equalization aid received by these districts.

- Since a district's choice reduction is distributed proportionately across its gross equalization, integration and special adjustment aid eligibility, eligible districts receive less net integration and special adjustment aid as a result of current law. Changing the secondary guarantee has little effect on integration or special adjustment aid entitlements. As a result, current law does not benefit districts that receive relatively significant integration or special adjustment aid.

Attachment 1 shows the estimated general school aids school districts would have received if neither the choice aid reduction nor the additional \$32.7 million of funding attributable to the choice reduction had applied in 2000-01. It further shows the additional amount of aid each district received as a result of the higher secondary guarantee and the amount of the choice reduction from each district's general school aid eligibility, as well as the net effect of these choice financing provisions. Finally, Attachment 1 identifies total net amount of general school aids received by each district in 2000-01.

An appendix is attached that provides further detail on the calculation of equalization aid that results under current law and that would have resulted in the absence of the choice aid reduction and levy offset provisions.

### **Alternative Funding Scenarios for the Choice Program**

A number of legislators have asked about the fiscal effects of other funding arrangements for the Milwaukee parental choice program. The following section discusses six alternatives and the fiscal effect of each alternative had it been in effect in 2000-01. Attachment 2 shows the net general school aids received by each district in 2000-01 under current law and estimates of the amount each district would have received in 2000-01 had each of the six alternatives been in effect.

**Restoring prior law (Alternative 1).** Restoring choice funding law as it existed prior to enactment of 1999 Act 9 would involve: (a) counting choice pupils in MPS membership for general school aid purposes, including a component of pupils who would be counted on a current year

basis; (b) counting choice pupils in the three-year rolling averages used under revenue limits, but deleting them on a prior year basis; and (c) requiring the choice reduction to be made from equalization aid paid to MPS.

The interaction between the choice program and the equalization formula had this alternative been in effect in 2000-01 is shown in Table 2. Lines one through nine of the table show the estimated effects of the alternative as a change to school funding in the absence of the current aid reduction and levy offset provisions. Each of the lines in the table is explained below.

**TABLE 2**  
**Alternative 1**  
**Choice Program Funding Interactions -- Restoring Pre-1999 Act 9 Law**  
**(\$ in Millions)**

	State General Fund Impact	School District School Aids		School District Local Property Taxes	
		MPS	All Others	MPS	All Others
1. MPS includes some choice pupils in revenue limits				\$1.8	
2. State two-thirds funding increases; choice pupils in MPS membership	\$1.2	\$17.7	-\$16.5		
3. School district levies adjusted for state aid changes				-17.7	\$16.5
4. Choice payment	49.0				
5. Offsetting MPS aid reduction	-49.0	-49.0			
6. MPS levy to replace loss in aid				49.0	
7. State aid increases by two-thirds of levy increase	32.7	2.4	30.3		
8. Levy is reduced by increase in state aid				-2.4	-30.3
9. Net effect of alternative	\$33.9	-\$28.9	\$13.8	\$30.7	-\$13.8
Current law net effect:	\$32.7	-\$22.1	\$5.8	\$22.1	-\$5.8
10. Change to current law under alternative	\$1.2	-\$6.8	\$8.0	\$8.6	-\$8.0

Line 1: Maximum allowable revenues for MPS would have increased by \$1.8 million as a result of restoring some choice pupils in MPS membership for revenue limit purposes. Before consideration of state aid, the MPS school property tax levy would have increased by \$1.8 million.

Line 2: Because of the increase in the MPS revenue limit, state two-thirds funding would increase by \$1.2 million. Since MPS could include choice pupils in its membership, MPS would have gained \$17.7 million in general school aids, while the other school districts in the state, in total, would have lost \$16.5 million in general school aids.

Line 3: As a result of the state aid changes attributable to MPS including choice pupils in membership, local school district levies would have been adjusted.

Line 4: The state would have made estimated total payments of \$49.0 million in 2000-01 from the choice program appropriation.

Line 5: This expenditure would have been offset by the reduction from the general school aids appropriation, with the entire reduction taken from MPS aid.

Line 6: As a result of the aid reduction and levy offset provisions, the MPS gross property tax levy would have been increased by \$49.0 million given that MPS would have been able to levy by the amount of the choice reduction.

Line 7: Because property taxes would have initially increased by \$49.0 million, partial school revenues would have been increased by \$49.0 million, and to maintain the state's two-thirds funding goal, general school aids would have been increased by approximately \$32.7 million. As under current law, the secondary guarantee would have been set at a level that generates equalization aid entitlements that are equal to the total amount of funds available for distribution and the state would have funded a greater percentage of secondary costs under the equalization aid formula. Under the equalization formula, MPS would have received an additional \$2.4 million in aid, while the other 425 districts would have received \$30.3 million.

Line 8: The increase in state aid received by districts would have allowed them to reduce their school property tax levy by an equivalent amount, or \$32.7 million statewide. Thus, the MPS property tax levy would have been reduced by \$2.4 million, while the other 425 districts would have been able to decrease their school property tax levy by a total of \$30.3 million.

Line 9: The net effect of this alternative, compared to school funding in the absence of the aid reduction and levy offset provisions, would have been that state general fund expenditures would have been \$33.9 million higher. General school aids to MPS would have been \$28.9 million lower, while general school aids to the other 425 districts would have been, in total, \$13.8 million higher. The local school property tax levy for MPS would have been \$30.7 million higher, while the local school property tax levy for the other 425 districts would have been, in total, \$13.8 million lower.

Line 10: Compared to current law, state general fund expenditures would have increased by \$1.2 million if this alternative had been in effect in 2000-01. General school aids for MPS would have decreased by \$6.8 million compared to current law, while the general school aids of the other 425 school districts in the state would, in total, have increased by \$8.0 million. A total of 363 districts would have gained a total of approximately \$10.5 million in aid, while 61 districts, excluding MPS, would have lost a total of nearly \$2.5 million in aid. The MPS school property tax levy would have increased by \$8.6 million compared to current law, while the school property tax levy for the other 425 districts, in total, would have decreased by \$8.0 million.

**Shifting the choice reduction to MPS (Alternative 2).** Under this alternative, the reduction from the general school aids appropriation would be funded by reducing the general school aids for which MPS is eligible by 100% of the reduction amount, rather than 50% as under current law.

The interaction between the choice program and the equalization formula had this alternative been in effect in 2000-01 is shown in Table 3. Each of the lines in the table is explained below.

**TABLE 3**

**Alternative 2  
Choice Program Funding Interactions -- Shifting the Choice Reduction to MPS  
(\$ in Millions)**

	State General Fund Impact	School District School Aids		School District Local Property Taxes	
		MPS	All Others	MPS	All Others
1. Estimated choice payment	\$49.0				
2. Offsetting MPS aid reduction	-49.0	-\$49.0			
3. MPS levy to replace loss in state aid				\$49.0	
4. State aid increases by two-thirds of levy increase	32.7	2.4	30.3		
5. Levy is reduced by increase in state aid				-2.4	-30.3
6. Net effect of alternative	\$32.7	-\$46.6	\$30.3	\$46.6	-\$30.3
Current law net effect	\$32.7	-\$22.1	\$5.8	\$22.1	-\$5.8
7. Change to current law under alternative	\$0	-\$24.5	\$24.5	\$24.5	-\$24.5

Line 1: The state would have made estimated total payments of \$49.0 million in 2000-01 from the choice program appropriation.

Line 2: This expenditure would have been offset by the reduction from the general school aids appropriation, with the entire reduction taken from MPS aid.

Line 3: As a result of the aid reduction and levy offset provisions, the MPS gross property tax levy would have been increased by \$49.0 million given that MPS would have been able to levy by the amount of the choice reduction.

Line 4: Because property taxes would have initially increased by \$49.0 million, partial school revenues would have been increased by \$49.0 million, and to maintain the state's two-thirds funding goal, general school aids would have been increased by approximately \$32.7 million. The secondary guarantee would have been set at a level that generates equalization aid entitlements that are equal to the total amount of funds available for distribution and the state would have funded a

greater percentage of secondary costs under the equalization aid formula. Under the equalization formula, MPS would have received an additional \$2.4 million in aid, while the other 425 districts would have received \$30.3 million.

Line 5: The increase in state aid received by districts would have allowed them to reduce their school property tax levy by an equivalent amount, or \$32.7 million statewide. Thus, the MPS property tax levy would have been reduced by \$2.4 million, while the other 425 districts would have been able to decrease their school property tax levy by a total of \$30.3 million.

Line 6: The net effect of this alternative, compared to school funding in the absence of the aid reduction and levy offset provisions, would have been that state general fund expenditures would have been \$32.7 million higher. General school aids to MPS would have been \$46.6 million lower, while general school aids to the other 425 districts would have been, in total, \$30.3 million higher. The local school property tax levy for MPS would have been \$46.6 million higher, while the local school property tax levy for the other 425 districts would have been, in total, \$30.3 million lower.

Line 7: If this alternative had been in effect in 2000-01, partial school revenues and state general fund expenditures would have remained unchanged as compared to current law. General school aids for MPS would have decreased by \$24.5 million as compared to current law as a result of the full choice reduction being taken from MPS general school aids. The general school aids of the other 425 school districts in the state would have increased by \$24.5 million from the elimination of aid reductions attributable to the choice program. Each district's aid would increase by an amount equal to the 2000-01 choice reduction. The MPS school property tax levy would have increased by \$24.5 compared to current law, while the school property tax levy for the other 425 districts, in total, would have decreased by \$24.5 million.

*Open enrollment model (Alternative 3).* Another alternative would be to fund the choice program in a method conceptually similar to the open enrollment program. This would involve: (a) counting choice pupils in membership for revenue limit and general school aid purposes; (b) counting the cost of the choice program in shared costs for general school aid purposes; (c) requiring the choice program to be funded from a reduction in equalization aid paid to MPS; and (d) prohibiting MPS from replacing the aid reduction with school property taxes.

The interaction between the choice program and the equalization aid formula had this alternative been in effect in 2000-01 is shown in Table 4. Each of the lines in the table is explained below.

**TABLE 4**

**Alternative 3  
Choice Program Funding Interactions -- Open Enrollment Model  
(\$ in Millions)**

	State General Fund Impact	School District School Aids		School District Local Property Taxes	
		MPS	All Others	MPS	All Others
1. MPS includes choice pupils in revenue limits				\$69.9	
2. State two-thirds funding increases and MPS includes choice pupils and costs in aids	\$46.6	\$45.9	\$0.7		
3. School district levies adjusted for state aid changes				-45.9	-\$0.7
4. Estimated choice payment	49.0				
5. Offsetting reduction from MPS equalization aid	-49.0	-49.0			
6. No school district levy to replace lost state aid					
7. No additional state aid changes					
8. No additional levy changes					
9. Net effect of alternative	\$46.6	-\$3.1	\$0.7	\$24.0	-\$0.7
Current law net effect	\$32.7	-\$22.1	\$5.8	\$22.1	-\$5.8
10. Change to current law under alternative	\$13.9	\$19.0	-\$5.1	\$1.9	\$5.1

Line 1: As a result of MPS being able to include choice pupils in its membership for revenue limit purposes, it is estimated that maximum allowable revenues for MPS would have increased by \$69.9 million had these pupils been fully phased in for revenue limits in 2000-01. Before consideration of state aids, this would have increased the MPS school property tax levy by \$69.9 million.

Line 2: Because of the increase in the MPS revenue limit, state two-thirds funding would increase by \$46.6 million. MPS would have gained \$45.9 million in general school aids from including prior year choice pupils and costs in its membership and shared costs, while the other 425 districts would have gained, in total, \$0.7 million.

Line 3: As a result of the state aid changes attributable to MPS including choice pupils in membership and shared costs, local school district levies would have been adjusted.

Line 4: The state would have made estimated total payments of \$49.0 million in 2000-01 from the choice program appropriation.

Line 5: This expenditure would have been offset by the reduction from the general school aids appropriation, with the entire reduction taken from MPS equalization aid.

Line 6: Since MPS would be unable to replace the aid lost due to the choice reduction by increasing its levy, the MPS gross property tax levy would have remained unchanged.

Line 7: Since the MPS gross property tax levy would remain unchanged, partial school revenues and the state's two-thirds funding goal would have remained unchanged.

Line 8: Since aid would remain unchanged, there would be no additional impact on the statewide school property tax levy.

Line 9: The net effect of this alternative, compared to school funding in the absence of the aid reduction and levy offset provisions, would have been an increase in general fund expenditures by \$46.6 million. General school aids to MPS would have been \$3.1 million lower, while general school aids to the other 425 districts would have been, in total, \$0.7 million higher. The local school property tax levy for MPS would have been \$24.0 million higher, while the local school property tax levy for the other 425 districts would, in total, have been \$0.7 million lower.

Line 10: If this alternative had been in effect in 2000-01, state general fund expenditures would have increased by \$13.9 million as compared to current law. General school aids for MPS would have increased by \$19.0 million as compared to current law, while the general school aids of the other 425 school districts in the state would have decreased, in total, by \$5.1 million. A total of 178 districts would have lost a total of nearly \$8.4 million in aid, while 246 districts, excluding MPS, would have gained a total of \$3.3 million in aid. The MPS school property tax levy would have increased by \$1.9 million compared to current law, while the school property tax levy for the other 425 districts, in total, would have increased by \$5.1 million.

**Full state funding of choice program (Alternative 4).** Another option would be to eliminate the reduction requirement from the general school aids appropriation in an amount equal to the estimated total payments made for the choice program. Thus, the state would make a direct payment for the choice program rather than having the aid amounts for school districts reduced.

The interaction between the choice program and the equalization formula had this alternative been in effect in 2000-01 is shown in Table 5. Each of the lines in the table is explained below.