

Fiscal Estimate Narratives

DPI 5/19/2017

LRB Number	17-3180/1	Introduction Number	AB-0315	Estimate Type	Original
Description state aid to a school district of residence of a pupil attending a private school under the Racine and statewide parental choice programs					

Assumptions Used in Arriving at Fiscal Estimate

This bill prohibits the Department of Public Instruction from making reductions in state aid paid to a school district (related to incoming pupils in the statewide and Racine parental choice programs) until the electors of a school district have approved the reduction in state aid by a referendum vote. Current law requires DPI to reduce the state aid paid to a school district in a school year by the amount paid in that school year to a private school participating in the Racine or statewide parental choice program for each pupil who resides in that school district but who attends a private school under the Racine or statewide parental choice program.

Under current law, the Department is required to pay the private school in which a pupil is enrolled, on behalf of the pupil's parent or guardian, from two separate GPR appropriations. This payment is made in four equal installments in September, November, February, and May of each school year. In the 2016-17 school year, per pupil payments are equal to \$7,323 for a pupil enrolled in a grade from kindergarten to eight and \$7,969 for a pupil enrolled in a grade from nine to 12. The per pupil payments for the choice programs will be adjusted each year by an amount equal to the revenue limit per pupil adjustment for school districts for that school year (if positive), plus the change (from the previous year) in total categorical aid appropriations per pupil (if positive).

For the statewide and Racine private school choice programs, per pupil payments for continuing pupils (pupils who first participated in the 2014-15 school year or prior) are fully funded through the GPR appropriation. While the payments for incoming pupils (pupils who first participated in the 2015-16 school year or later) are made from the same GPR appropriation, the state's costs for incoming choice pupils are completely offset, via a reduction applied to the general aid payments (and categorical aid, if necessary) to the school districts of residence of the incoming choice pupils. These aid reductions lapse to the state's general fund, thereby offsetting the state's cost of making payments to private parental choice schools on behalf of incoming choice pupils.

To make up for the aid reduction for incoming pupils, school districts receive a revenue limit adjustment for each pupil in the current year equal to the aid reduction (school districts also include incoming pupils in their pupil count for membership in calculating state general aid in the following aid year). If a school district chooses to levy to the maximum, its total resources are unaffected by the choice aid reduction, because it replaced the aid reduction with local levy.

In the October 15, 2016, general school aids distribution, the Department used an estimate of \$18.3 million for the total cost of the Racine program and \$22.6 million for the total cost of the statewide program in the 2016-17 school year. The aid reduction made on behalf of incoming choice pupils was equal to \$8.8 million for the Racine program and \$16.7 million for the statewide program (\$25.5 million total). Likewise, the total allowable revenue authority (statewide) for those districts whose general aid payments were reduced (for resident incoming choice pupils) was \$25.5 million. To the extent that the affected districts levied to the maximum allowed, the cost of the payments for incoming choice pupils to attend private schools was born by taxpayers in those school districts.

Under the bill, the Department is prohibited from making the reductions in state general aid related to the incoming choice pupils who are residents of the school district, until the electors of a school district have approved the reduction in state aid by a referendum vote (the bill uses the term "qualified" to describe a district meeting this condition).

If this bill were to become law, there would be an immediate impact on the state's general fund, in that the payments for incoming choice pupils would no longer be offset by aid reductions to resident school districts.

If the electors of a school district deny the reduction in state aid by referendum vote, the Department may not reduce the school district's state aid, and the district would not be able to claim the nonrecurring exemption to its revenue limit. In the absence of the offsetting reduction to school districts' general aid payments, the state's general fund would continue to absorb the cost of the payments to the private school.

If the electors of a school district approve the reduction in state aid by referendum vote, the district would be deemed "qualified". Under the bill, beginning in the first school year after the date on which the question was approved by electors (via referendum), the Department would be required to reduce the school district's state general aid for incoming choice pupils. The district would then be allowed to offset the aid reduction with an increase in local property taxes, up to the amount of the aid reduction, through its applicable revenue limit adjustment (the nonrecurring exemption).

The bill specifies that a school district that approves the aid reduction via referendum is qualified and "remains qualified". The bill does not specify that a district may, or may not, put the question to voters again at a subsequent referendum. If the term "remains qualified" is interpreted to mean qualified into perpetuity (or until the statute is changed), the bill then has the effect of making permanent the outcome of a referendum on the question of general aid reduction for incoming choice pupils.

State:

If this bill became law, the total cost associated with payments made to private parental choice schools on behalf of incoming choice pupils would be borne directly by the state, immediately. The default position under the bill is that the state would pay the full cost of payments for incoming choice pupils under the Statewide and Racine choice programs, until such time as the electors vote to change to the funding mechanism under current law.

The total payments for incoming choice pupils for FY17 was estimated at \$25.5 million at the time of the October 15th, 2016 general aid certification. Under the Department's 2017-19 biennial budget request, the Department projected that state aid reductions associated with incoming choice pupils in the Statewide and Racine choice programs at \$37.4 million in FY18 and \$47.8 million in FY19. These are estimates of the amounts that would be borne directly by the state for the program under the bill, assuming that no referendum to change the funding mechanism were approved.

Local:

Under the bill, the electors have responsibility for initiation action to bring to vote (via referendum) the question of approving reductions in state general aid to pay for resident pupils to attend a private school in the Statewide or Racine parental choice programs. If the bill were to pass, the immediate impact would be that school districts would no longer have the general aid reductions applied, but would also no longer claim the revenue limit adjustment (nonrecurring exemption). There would be no change in total spending capacity for the school district. However, the district's general aid would be greater (no reductions, as under current law) and the resulting tax levy would be less, by an equal amount (no revenue limit adjustment). The bill therefore reduce the local tax levy, until such time a electors choose to have the funding mechanism for incoming choice pupils change back to the current law mechanism (\$25.5 million statewide, if the bill had been in place in FY17; projected at \$37.4 million in FY18 and \$47.8 million in FY19).

If the electors of a school district were to initiate a petition, bring the question to referendum, and approve such a referendum, the school district's state general aid would be reduced, but would be offset by an equal increase in allowable revenue authority (local property taxes) through its applicable revenue limit adjustment (the revenue limit exemption for incoming choice pupils) – as under current law. The Department cannot predict whether said referendum would occur or be approved.

Long-Range Fiscal Implications

The default position under the bill is that the state would pay the full cost of payments for incoming choice pupils under the Statewide and Racine choice programs, until such time as the electors vote to change to the funding mechanism under current law. The bill requires individuals to initiate the petition process to bring the question to referendum, thereby requiring active, explicit approval by voters to increase local property taxes to pay for resident pupils to attend a private school under the Statewide and Racine

parental choice programs. The Department cannot predict whether individuals are likely to initiate the petition process, whether those efforts would culminate in a referendum election, or the outcome of a hypothetical election.