



Legislative Fiscal Bureau

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October 15, 2003

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 260: Milwaukee Parental Choice Program School Eligibility

Assembly Bill 260 would modify school eligibility under the Milwaukee parental choice program. AB 260 was introduced on April 15, 2003 and referred to the Assembly Committee on Education Reform. On September 25, 2003, the Committee recommended it for passage on a 8-5 vote. The Assembly passed the bill on October 1 on a 56-42 vote and messaged it to the Senate that day. The Senate received AB 260 from the Assembly and referred it to the Joint Committee on Finance on October 2.

BACKGROUND

Under the Milwaukee parental choice program, state funds are used to pay for the cost of children from low-income families in the City of Milwaukee to attend, at no charge, private schools located in the City. Pupil participation is limited to pupils in grades K-12 with family incomes less than 175 percent of the federal poverty level (FPL). The limit on the number of pupils who can participate in the program is 15 percent of the MPS membership (approximately 14,900 pupils in 2002-03). Further, in the school year prior to their initial enrollment in a private school, participants must have been either enrolled in Milwaukee Public Schools (MPS), the choice program or grades kindergarten through three in private schools located within the City of Milwaukee, or not enrolled in school. In January, 2003, 11,621 students attended 102 schools participating in the choice program.

If the total number of available spaces in the private schools is greater than the maximum number of pupils allowed to participate, the Department of Public Instruction (DPI) must prorate the number of spaces available at each participating private school. If a private school rejects an

applicant due to lack of space, the pupil may transfer his or her application to another participating private school that has space available.

For each pupil attending a choice school, DPI pays the parent or guardian an amount that is equal to the lesser of: (a) the private school's operating and debt service cost per pupil related to educational programming; or (b) the amount paid per pupil in the previous school year adjusted by the percentage change in the general school aids appropriations from the previous school year to the current school year. If that percent change is a negative number, however, the per pupil payment does not change from the prior year. Based on the general school aids appropriations from the general and transportation fund under 2003 Act 33 (the 2003-05 budget), the per pupil payment under choice program in 2004-05 will be \$5,943.

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

SUMMARY OF BILL

Under AB 260, schools located in Milwaukee County, rather than only the City of Milwaukee, that meet eligibility criteria could accept students in the choice program, beginning with the 2004-05 school year.

FISCAL EFFECT

The bill would expand eligibility for the choice program to schools that are currently ineligible to participate in the program. In the fiscal estimate to AB 260, DPI noted that there were currently 63 private schools located in Milwaukee County outside of the City of Milwaukee that enroll approximately 13,100 students. Of the 63 schools, 48 are elementary schools, 10 are combination elementary and secondary schools, four are high schools and one is a middle school. It is not possible to estimate the number of current schools that would participate in the program, given that it would depend on the decisions of those schools that would become eligible under the bill. It is also not known how many students currently enrolled in those schools would be eligible to participate in the program or how many new students would enroll in newly-eligible schools under the provisions of the bill. It is also possible that new schools would be established if the bill were enacted. The potential fiscal effect of the bill, however, can be discussed in more general terms.

State General School Aid Funding. Under 2003 Act 33, the state's two-thirds funding commitment was deleted. Under prior law, general school aids funding was set in the budget bill in

even-numbered years and determined by the Joint Committee on Finance in odd-numbered years in an amount estimated to fund two-thirds of partial school revenues. Under Act 33, the general school aids funding level is set in a manner similar to other sum certain local assistance appropriations, with the funding determined in the budget process.

Potential Effects on the General Fund. Because the state no longer funds two-thirds of partial school revenues, any decrease to a school district's revenue limit would no longer result in a reduction to general aids funding equal to two-thirds of the decrease. For example, if MPS enrollment were to decline as a result of children enrolling in the choice program who would otherwise enroll in MPS, the general school aids appropriation would not be automatically reduced as a result of the decline. If additional students enroll in the choice program, the state would pay 55% of the payment amount for each pupil. Thus, under current law, to the extent that the changes proposed in the bill results in more students entering the choice program, general fund expenditures would increase. As an example, if in 2004-05, 1,000 additional children enrolled in the choice program, general fund expenditures for each pupil would increase by 55% of the \$5,943 per pupil payment amount, or \$3.3 million in total.

Potential Effects on MPS Revenue Limits. Under the provisions of the bill, if additional pupils enroll in the choice program that otherwise would have enrolled in MPS, the revenue limit for MPS would be lower than it would have been. Under revenue limits, one-third of the number of choice pupils that left MPS would be reflected immediately under the three-year rolling average of enrollment. Revenue limits for MPS would fully reflect the loss of additional choice pupils only in the third year. If, for example, 1,000 pupils had been fully phased out for MPS revenue limit purposes in 2002-03 under the provisions of the bill, it is estimated that the MPS revenue limit would have been reduced by \$6.5 million compared to what the revenue limit would have been had those 1,000 pupils enrolled in MPS, had those changes applied in that year.

If the 1,000 additional pupils would otherwise have enrolled in non-MPS schools, then there would not be any effect on MPS revenue limits.

Potential Effects on the Distribution of General School Aids. Because general school aids are calculated using prior year membership and shared cost data, the loss of additional pupils from MPS to the choice program would not directly affect the amount of equalization aid received by MPS until the next year. Once these pupils and their related shared costs would be fully excluded from MPS for general school aid purposes, assuming all other aid factors are unchanged, there would be aid shifts under the equalization formula. Under the hypothetical example that 1,000 pupils would have enrolled in the choice program rather than MPS for the 2002-03 aid calculation under the bill, it is estimated that aid to MPS would have decreased by \$9.1 million and the aid to the other 425 school districts would have increased, in total, by \$6.5 million, had those changes applied in that aid year.

These aid changes would reflect the effects of three factors. First, the increase in choice membership would have resulted in a larger 45% aid reduction for MPS under the current choice

financing structure. Second, membership and shared costs for MPS would have been reduced. Because MPS receives positive aid at the tertiary level of the equalization aid formula, these reductions would have resulted in MPS receiving less aid under the equalization aid formula. Third, because membership and shared costs statewide would have decreased as a result of the MPS changes, the secondary cost ceiling, secondary guarantee and tertiary guarantee would all have been slightly higher, which would have increased the aid received by most other districts at those levels of the formula.

If the 1,000 additional pupils would otherwise have enrolled in non-MPS schools, then the only effect on general school aids would have been an aid reduction of \$2.6 million for MPS in 2002-03, had those changes applied in that aid year.

Potential Effects on MPS School Property Tax Levy. With respect to the MPS property tax levy, if 1,000 pupils that otherwise would have attended MPS had been fully phased out for MPS revenue limit and equalization aid purposes in 2002-03, it is estimated that the MPS revenue limit would have been reduced by \$6.5 million and that aid to MPS would have decreased by \$9.1 million compared to the calculations that would have resulted had those 1,000 pupils enrolled in MPS. Under revenue limits, MPS would have the authority to levy to replace any loss of aid within the new limit. Thus, the MPS levy could have increased by up to \$2.6 million in 2002-03 under this scenario, based on the decision of the Board of School Directors of MPS.

If the 1,000 additional pupils would have, instead, otherwise attended non-MPS schools, then the change in general school aids would have been the \$2.6 million noted above, and the MPS levy could have increased by up to \$2.6 million, depending on the decision of the Board of School Directors of MPS.

The revenue limit and general school aid effects described above are generally proportional for each additional 1,000 pupils that would attend a choice school rather than MPS. It should be noted that, however, that the actual aid effects would not be perfectly proportional as changes to assumption in the number of students to attend choice schools would affect the various cost and value ratios in the equalization aid formula.

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