



Legislative Fiscal Bureau

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TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 92: Milwaukee Parental Choice Program Pupil Participation Limit and School Eligibility

Assembly Bill 92 would delete the pupil participation limit under the Milwaukee parental choice program and expand the eligibility of schools to take part in the program. AB 92 was introduced on April 12, 2011, and referred to the Assembly Committee on Education. On April 26, 2011, the Committee recommended it for passage on a 7-4 vote.

BACKGROUND

Under the choice program, state funds are used to pay for the cost of children from low-income families to attend, at no charge, private schools located in the City of Milwaukee. Choice schools must notify the State Superintendent of their intent to participate in the program and the number of students for which the school has space by February 1 of the prior school year. A choice school must pay an annual, nonrefundable fee to the Department of Public Instruction (DPI) with its notice of intent to participate in the program. DPI is required to set the fee in administrative rule at an amount such that the total fee revenue covers the costs of employing one full-time auditor to evaluate the financial information submitted to the Department by choice schools. By August 1 before the first school year a new school participates in the program, or by May 1 if the school begins participating in the program during summer school, each school participating in the program must submit to DPI a copy of the school's current certificate of occupancy issued by the City.

Pupils in grades K-12 with family incomes less than 175% of the federal poverty level (\$39,630 for a family of four in 2010-11) who reside in the City are initially eligible to participate in the program. Continuing pupils and siblings of current choice pupils are eligible to participate if family incomes are less than 220% of the federal poverty level (\$49,818 for a family of four in 2010-11). The limit on the number of pupils who can participate in the program is statutorily set at

22,500 full-time equivalent pupils. Whenever the State Superintendent determines that the limit has been reached, he or she must issue an order prohibiting participating choice schools from accepting additional pupils until he or she determines that the number of pupils attending choice schools has fallen below the limit. He or she must then issue an order notifying participating schools that they may begin accepting additional pupils. After an order has been issued, first priority for accepting new pupils must be given to pupils attending a choice school under the program. Second priority must be given to the siblings of choice pupils, and third priority must be given to pupils selected at random under a procedure established by the Department by administrative rule.

The State Superintendent is required to pay the parent or guardian of a pupil enrolled in a choice school from a separate, general purpose revenue sum sufficient appropriation established for this purpose. The maximum per pupil payment under the choice program for 2010-11 is \$6,442. By law, DPI is required to reduce the general school aids for which the Milwaukee Public Schools (MPS) is eligible by 45% of the estimated total cost of the choice program. The October 15, 2010, general school aids calculation uses an estimate of \$130.8 million for the total cost of the choice program in 2010-11. Thus, MPS's general school aids will initially be reduced by a total of \$58.8 million.

In 2010-11, DPI is required to pay the City an amount equal to 6.6% of the estimated total cost of the choice program, for the purpose of defraying the choice program levy it raises on behalf of MPS. As a result, the net choice aid reduction for MPS in 2010-11 is equal to 38.4% of the estimated total cost of the choice program. In 2010-11, the City will be paid \$8.6 million for the purpose of reducing the choice levy. The net reduction for MPS is thus \$50.2 million.

Under revenue limits, MPS can levy to make up for the aid reduction. By law, any high poverty aid MPS receives must be used to offset the choice levy attributable to the reduction in general school aid. In 2010-11, MPS will receive \$9.7 million in high poverty aid. After consideration of this aid, the effective aid reduction for MPS related to the choice program is \$40.5 million, which is 31.0% of the estimated cost of the program in 2010-11.

SUMMARY OF BILL

AB 92 would delete the limit on the number of pupils that may participate in the choice program, beginning in the 2011-12 school year.

The bill would allow schools in Milwaukee County to participate in the choice program, beginning in the 2011-12 school year. Statutory references to the certificate of occupancy that schools must submit to the Department would be modified to require that the certificate be from the municipality in which the school is located.

Under the bill, a school located in the County that intends to participate in the choice program in the 2011-12 school year would be required to notify the State Superintendent of its intent to participate and pay the auditor fee by August 1, 2011. The notice would be required to specify the number of choice pupils for which the school has space. After 2011-12, the current

schedule (February 1) for schools to notify the State Superintendent of their intent to participate in the program would apply.

The provisions of AB 92 are also included in the Governor's 2011-13 budget recommendations (SB 27/AB 40) with one difference. In the budget bill, expansion to private schools in Milwaukee County would begin in the 2012-13 school year, whereas in AB 92 that expansion would begin with the 2011-12 school year.

FISCAL EFFECT

The bill would both delete the limit on the number of pupils that could participate in the choice program and expand eligibility to schools that are currently ineligible to participate in the program. It is difficult to estimate the number of additional students who would participate in the program, given that it would depend on the decisions of those families that would have additional educational options under the bill. The potential fiscal effect of the bill, however, can be discussed in more general terms.

Potential Effects on the General Fund. Because the state no longer has a commitment to fund two-thirds of partial school revenues, any decrease to a school district's revenue limit would no longer result in a reduction to general aids funding equal to two-thirds of the decrease. For example, if MPS enrollment were to decline as a result of children enrolling in the choice program who would otherwise enroll in MPS, the general school aids appropriation would not be automatically reduced as a result of the decline. If additional students enroll in the choice program, the state would pay 61.6% of the payment amount for each pupil. Thus, under current law, to the extent that the changes proposed in the bill result in more students entering the choice program, general fund expenditures would increase. As an example, if in 2010-11, 500 additional children enrolled in the choice program, general fund expenditures for each pupil would have increased by 61.6% of the \$6,442 maximum per pupil payment, or \$2.0 million in total.

Potential Effects on MPS Revenue Limits. Under 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, 500 pupils had been fully phased out for MPS revenue limit purposes in 2010-11 under the provisions of the bill, it is estimated that the MPS revenue limit would have been reduced by \$4.9 million compared to what the revenue limit would have been had those 500 pupils enrolled in MPS, had those changes applied in that year.

If the 500 additional pupils would otherwise have enrolled in non-MPS schools, then there would not have been any effect on MPS revenue limits.

Potential Effects on the Distribution of General School Aids. Because general school aids are calculated using prior year membership and shared cost data, the loss of additional pupils from

MPS to the choice program would not directly affect the amount of equalization aid received by MPS until the next year. Once these pupils and their related shared costs would be fully excluded from MPS for general school aid purposes, assuming all other aid factors are unchanged, there would be aid shifts under the equalization formula. Under the example that 500 pupils would have enrolled in the choice program rather than MPS for the 2010-11 aid calculation under the bill, it is estimated that aid to MPS would have decreased by \$5.8 million and the aid to the other school districts would have increased, in total, by \$4.6 million, had those changes applied in that aid year.

These aid changes would reflect the effects of three factors. First, the increase in choice membership would have resulted in a larger 38.4% 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 500 additional pupils would otherwise have enrolled in non-MPS schools, then the only effect on general school aids would have been an increased aid reduction of \$1.2 million for MPS in 2010-11, 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 500 pupils that otherwise would have attended MPS had been fully phased out for MPS revenue limit and equalization aid purposes in 2010-11, it is estimated that the MPS revenue limit would have been reduced by \$4.9 million and that aid to MPS would have decreased by \$5.8 million compared to the calculations that would have resulted had those 500 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 \$0.9 million in 2010-11 under this scenario, based on the decision of the Board of School Directors of MPS.

If the 500 additional pupils would have, instead, otherwise attended non-MPS schools, then the reduction in general school aids for MPS would have been the \$1.2 million noted above, and the MPS levy could have increased by up to \$1.2 million, depending on the decision of the MPS Board.

The revenue limit and general school aid effects described above are generally proportional for each additional 500 pupils that would attend a choice school rather than MPS. It should be noted, however, that the actual aid effects would not be perfectly proportional, as changes to the assumptions in the number of students who would attend choice schools would affect the various cost and value ratios in the equalization aid formula.