



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #626

### **Charter School Payment to Racine Unified School District (DPI -- Choice and Charter)**

[LFB 2003-05 Budget Summary: Page 353, #3]

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#### **CURRENT LAW**

Under 2001 Act 16, DPI is required to make payments to the University of Wisconsin-Parkside, equal to those made to Milwaukee charter schools, to operate a charter school. A continuing program revenue appropriation under the UW System was created to receive payments from DPI for this purpose. In addition, DPI is required to pay to the Racine Unified School District (RUSD) an amount equal to its equalization aid per pupil multiplied by the number of pupils attending the charter school who were previously enrolled in the district.

Under current law, funding equal to the estimated total payment each year for Milwaukee and Racine charter schools is deducted proportionally from the general school aids paid to all school districts in the state. In 2002-03, it is estimated that this \$25.0 million reduction will represent a 0.6% decrease in the general school aids received by all school districts.

Under revenue limits, school districts may levy property taxes to make up for the amount of revenue lost due to this aid reduction. This increase in property tax levies results in an increase in partial school revenues, and the state provides additional GPR funding for general school aids in order to maintain two-thirds funding of partial school revenues. As a result, the program currently can be viewed as being funded by the state for two-thirds of its costs and by school district property tax levies for the remaining one-third.

#### **GOVERNOR**

No provision relating to payments to the Racine Unified School District. Under SB 44, the state's two-thirds funding commitment would be deleted, and funding for general school aids

would be set on a sum certain basis. As a result, state funding for general school aids would no longer be adjusted for changes in the reduction in general school aids, and the related local school district levy to backfill the aid reduction, associated with the charter school program.

## **DISCUSSION POINTS**

1. Under 1997 Act 27, the Common Council of the City of Milwaukee, the Chancellor of the University of Wisconsin-Milwaukee (UW-M), and Milwaukee Area Technical College (MATC) were authorized to establish by charter and operate, or contract with a group or individual to operate a charter school. Under current law, 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 the per pupil increase allowed under revenue limits, multiplied by the number of pupils attending the charter school.

2. Currently, five schools are operating under the City's chartering authority, and five are operating under UW-M's chartering authority. MATC has not elected to establish a charter school. The charter school per pupil payment amount is \$6,951 in 2002-03, and 3,105 pupils are attending these schools.

3. Local school boards may also authorize charter schools. However, these charter schools, which make up the majority of those operating in the state, do not receive additional state aid payments. Instead, the contract between the school board and the person operating the charter school must specify the amount to be paid to the charter school during each school year of the contract. The pupils enrolled in the charter school are included in the school district's membership for revenue limits and for general school aids, and the contract costs are eligible for state cost sharing under the equalization aid formula.

4. Under 2001 Act 16, the Milwaukee charter school program was expanded to allow the University of Wisconsin-Parkside, on a pilot basis, to establish by charter and operate, or contract to operate, one charter school for grades kindergarten through eight, enrolling no more than 400 pupils. The school is prohibited from operating high school grades. The provision specified that the charter school be located within a unified school district in the county in which UW-Parkside is located, or in an adjacent county.

5. In March, 2002, the UW Board of Regents approved Racine Charter One to operate a charter school overseen by UW-Parkside and located in the Racine Unified School District. The charter school, known as the 21<sup>st</sup> Century Academy of Learning, opened in the fall of 2002, serving 255 pupils in kindergarten through fourth grade. In 2002-03, the Academy of Learning will be eligible to receive an estimated \$1,772,500, based on the \$6,951 charter school per pupil payment amount.

6. Under Act 16, DPI is required to pay to the RUSD an amount equal to its current year equalization aid per pupil multiplied by the number of pupils attending the charter school who were previously enrolled in the district. In 2002-03, the RUSD is eligible to receive equalization

aid per member equal to \$5,243. Therefore, the RUSD is eligible to receive an estimated \$1,337,000 in 2002-03 in payments for the 255 students who left the district in order to enroll in Academy of Learning. These monies are outside of revenue limits, and can be used by RUSD for any spending purpose.

7. Proponents of this aid provision argue that when the expansion of the charter school program was authorized, the RUSD was provided this aid in order to cushion the loss of state aid that the district would incur when pupils left the district to enroll in the charter school. Proponents of the expansion of the charter school program did not wish to penalize the RUSD, but rather to expand the educational options available to pupils residing in Racine.

8. However, under the three-year rolling average for revenue limit calculations, these pupils would not fully phase out of RUSD membership counts for three years after the pupils left the district. Therefore, RUSD continues to receive revenue for these pupils during that time. One could argue that, due to the rolling average used for revenue limits under current law, it is not necessary to provide RUSD with an additional aid payment for pupils who have chosen to leave the district.

9. Current law does not specify that the RUSD payment would be one-time. Therefore, each year the RUSD would receive payments based on pupils attending the charter school who were, in any year, previously enrolled in the district. The Committee could consider modifying this provision to specify that payments to RUSD would be made only for pupils enrolled in RUSD in the immediately preceding year. RUSD would receive financial assistance in the first year that pupils leave the district, to assist RUSD in adjusting its operations, without providing ongoing revenues attributable to pupils for whom RUSD is no longer responsible for educating.

10. Under current charter school law, pupils may attend Milwaukee charter schools only if they reside in the Milwaukee Public Schools (MPS) district and in the previous school year: (a) the pupil was enrolled in MPS; (b) the pupil was attending school under the Milwaukee parental choice program; (c) the pupil was enrolled in grades kindergarten to three in a private school located in the City, but not participating in the choice program; (d) the pupil was not enrolled in school; or (e) the pupil was enrolled in a Milwaukee charter school.

11. Based on these requirements for attendance, it could be argued that Milwaukee charter schools were authorized, at least in part, to provide an alternative to MPS and to introduce competition for pupils in Milwaukee. MPS receives no aid or other compensation in order to offset lost membership or revenue limit authority for pupils who choose to leave the district to enroll in private schools, charter schools or choice schools. Additionally, there is no limit on the number of charter schools that can be established in MPS, nor on the number of pupils they may enroll.

12. Conversely, the RUSD continues to receive state aid for pupils who have chosen to leave the district, and the law limits the number of pupils the district can lose to the charter school to 400 in grades kindergarten through eight. One could argue that the Academy of Learning presents RUSD with neither a reason to improve as a district, nor an incentive to compete for pupils, as long

as the RUSD continues to receive state aid for pupils it is no longer required to educate.

13. The Committee could consider treating RUSD and MPS equally under the charter school law by removing the additional aid payment to RUSD for pupils who have left the district. Because both the RUSD and the Academy of Learning receive state aid payments for the charter school pupils previously enrolled in RUSD, one could argue that the state effectively pays for these pupils twice, artificially inflating the cost of the Milwaukee and Racine charter school program by \$1,337,000. If a similar provision had been applied to the Milwaukee program, MPS could have received up to an estimated \$18,409,500 in additional aid in 2002-03, using the \$5,929 per pupil equalization aid payment for MPS, multiplied by 3,105 charter school pupils, assuming that all of these pupils would have otherwise attended MPS.

14. The Committee might wish to consider the RUSD payment in the broader context of the proposed school finance provisions under the bill. The Governor has proposed elimination of the state's commitment to two-thirds funding of partial school revenues, as well as tying the increase in choice and charter school payments each year to the percentage increase in state general aids, rather than tying it to the per pupil revenue limit increase, as under current law. It is likely that property taxpayers across the state would experience tax rate increases, should two-thirds funding be reduced and revenue limit authority remain unchanged. Charter school payments are deducted proportionally from state aids for all 426 school districts, and districts are allowed to backfill that reduction with property taxes.

15. For the 2003-05 biennium, it is estimated that RUSD will be eligible for equalization aid payments equal to \$5,255 in 2003-04 and \$5,266 in 2004-05. It is assumed that the Academy of Learning will enroll 400 pupils, the maximum number allowed under the law, in each of these years, for total payments to RUSD under this provision of \$2,102,000 in 2003-04 and \$2,106,400 in 2004-05. It is assumed that all districts would exercise their option to levy for the full amount of their proportional charter school reduction in 2003-05, increasing property taxes statewide by \$4,208,400 over the biennium. The elimination of these aid payments to RUSD related to the Academy of Learning charter school would have the effect of decreasing the property tax burden statewide by this amount.

16. However, under SB 44, the amounts included in the charter appropriation attributable to payments to RUSD are calculated based on the estimated equalization aid payments to RUSD if the state were providing two-thirds funding of partial school revenues. Because this commitment would be eliminated under SB 44, the amounts provided for general school aids are reduced compared to current law, thus reducing the estimated equalization aid payments to RUSD in 2003-05. Under the bill, the amounts provided in the charter appropriation for RUSD total \$2,116,000 in 2003-04 and \$2,186,000 in 2004-05. The Committee could choose to adjust the charter appropriation by \$14,000 in 2003-04 and \$79,600 in 2004-05 to account for the estimated reduction to the RUSD's equalization aid entitlement under the bill.

## ALTERNATIVES

1. Eliminate the payment to RUSD for charter school pupils previously enrolled in the district. Decrease the charter school appropriation by \$2,116,000 in 2003-04 and \$2,186,000 in 2004-05, and reduce GPR-Lapses attributable to the offsetting aid reduction from general school aids by the same amounts. *(Under this alternative, more general school aids would be received by school districts, and under revenue limits, statewide school property taxes would be reduced by an estimated \$4.3 million in the 2003-05 biennium.)*

<u>Alternative 1</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$4,302,000	- \$4,302,000	\$0

2. Modify current law to specify that payments would be made to RUSD only for those charter school pupils who were enrolled in RUSD in the prior school year. Decrease the charter school appropriation by \$1,349,000 in 2003-04 and \$1,764,700 in 2004-05, and reduce GPR-Lapses attributable to the offsetting aid reduction from general school aids by the same amounts. *(Under this alternative, more general school aids would be received by school districts, and under revenue limits, statewide school property taxes would be reduced by an estimated \$3.1 million in the 2003-05 biennium.)*

<u>Alternative 2</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$3,113,700	- \$3,113,700	\$0

3. Reestimate the amount included in the bill for payments to RUSD to reflect revised estimates for equalization aid payments to RUSD in 2003-05, based on the elimination of the state's commitment to two-thirds funding of partial school revenues. Decrease the charter appropriation by \$14,000 in 2003-04 and \$79,600 in 2004-05, and reduce GPR-Lapses attributable to the offsetting aid reduction from general school aids by the same amounts.

<u>Alternative 3</u>	<u>GPR</u>	<u>GPR-Lapse</u>	<u>Net GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$93,600	- \$93,600	\$0

4. Maintain current law.

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