



Legislative Fiscal Bureau

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

May 25, 2005

Joint Committee on Finance

Paper #605

Student Achievement Guarantee in Education Program (DPI -- Categorical Aids)

[LFB 2005-07 Budget Summary: Page 400, #1]

CURRENT LAW

A total of \$95,029,600 GPR is provided in 2004-05 for the student achievement guarantee in education (SAGE) program. The SAGE program awards five-year grants to eligible school districts for the purpose of lowering class sizes to 15 in grades kindergarten to third. Since its creation, three rounds of contracts have been authorized.

The original five-year SAGE contracts covered kindergarten and grade 1 in 1996-97, with the addition of grade 2 in 1997-98 and grade 3 in 1998-99. These contracts expired on June 30, 2001. Under 1997 Act 27, a second round of five-year contracts was authorized for additional schools and school districts, with kindergarten and grade 1 in 1998-99 and the addition of grade 2 in 1999-00 and grade 3 in 2000-01. These contracts expired on June 30, 2003. Under the provisions of 1999 Act 9, a third round of five-year contracts was created, which covered kindergarten and grade 1 in 2000-01, with the addition of grade 2 in 2001-02 and grade 3 in 2002-03. These contracts expire on June 30, 2005.

Under 2001 Act 16, the Department of Public Instruction (DPI) was authorized to enter into renewal contracts for additional five-year terms for any currently participating SAGE school. As a condition of receiving payments under a renewal of a SAGE contract, a school board is required to maintain the reduction of class size achieved under the original contract, in grades kindergarten through third.

School districts must do all of the following in each SAGE school: (a) reduce each class size in the applicable grades to 15 pupils; (b) keep the school open every day for extended hours and collaborate with community organizations to make educational and recreational opportunities as well as community and social services available in the school to all district

residents; (c) provide rigorous academic curriculum designed to improve academic achievement; and (d) create staff development and accountability programs that provide training for new staff members, encourage employee collaboration, and require professional development plans and performance evaluations.

DPI is required to fund contracts at \$2,000 per low-income pupil enrolled in the eligible grades. Additionally, DPI is required to arrange for an evaluation of the SAGE program and must allocate \$250,000 annually for this purpose. The Department has contracted with the University of Wisconsin-Madison for this evaluation.

In order to continue to receive funding under the SAGE program, school districts must pass an annual review. At the end of each school year, a committee consisting of the State Superintendent, the Chairpersons of the Education Committees in the Senate and Assembly and the head of the UW-Madison evaluation team must review the progress of each SAGE school and may recommend that DPI terminate a contract if a school has made insufficient progress or has violated the requirements SAGE. The Department may terminate the contract if it agrees with the committee's recommendation.

GOVERNOR

Provide \$14,754,900 GPR in 2005-06 and \$29,317,900 GPR in 2006-07 above base level funding of \$95,029,600 GPR for SAGE. Provide that, in the 2005-06 school year, participating SAGE schools would receive up to \$2,250 per low-income pupil enrolled in the eligible grades. Provide that, in the 2006-07 school year, participating SAGE schools would receive up to \$2,500 per low-income pupil enrolled in the eligible grades.

In addition, authorize a fourth round of SAGE contracts in the 2006-07 school year, if the school is not currently participating in the preschool to grade 5 program or the SAGE program, and if the school board, if eligible to participate in SAGE in the 1996-97 and 1998-99 school years, participated in either year. Provide that contracts that begin in the 2006-07 school year would be eligible for renewal after five years. Require fourth-round schools to meet the requirements for other SAGE schools under current law. Specify that state aid for contract renewals of currently participating SAGE schools would be paid first, followed by the contracts beginning in 2006-07. Require DPI in making these payments to give priority to schools that have the highest percentage of low-income pupil enrollment and to ensure that the amount appropriated is fully distributed.

Provide that for contracts that begin in 2006-07, each school would reduce class sizes to 15 in kindergarten and grade 1 in 2006-07, kindergarten to grade 2 in 2007-08, and kindergarten to grade 3 in the 2008-09 and 2009-10 school years. A technical correction would be needed to accomplish the intent of the proposal.

DISCUSSION POINTS

1. In 2004-05, 227 school districts have SAGE contracts with DPI on behalf of 524 schools and approximately 48,300 FTE kindergarten through third grade low-income pupils. In each year of the program, SAGE schools have received the full \$2,000 for each low-income FTE pupil. However, for 2003-04, supplemental funding for SAGE totaling \$539,200 above the amount appropriated for per pupil payments was necessary to reach full-funding. No new schools were added to the program in that year, but low-income enrollment increased among participating schools. Rather than prorate payments, the Joint Committee on Finance approved the transfer from available funding in a DPI appropriation for tuition payments to the SAGE appropriation.

2. For 2004-05, in order to avoid a shortfall, DPI will pay school districts \$2,000 for each low-income pupil identified by the schools in the regular October SAGE count. Low-income pupils totaled 47,050 FTE, for aid eligibility of \$94,100,000. The Department must allocate \$250,000 from the appropriation for an annual evaluation, which left \$679,600 in the appropriation. In the past DPI has allowed districts to claim pupils for aid purposes later in the year if the pupils were missed during the October count. By January, districts had reported an additional 1,253 FTE pupils who were enrolled in September but were not identified as low-income. Therefore, the remaining aid, \$679,600, will be divided among these pupils, and districts will receive additional payments of approximately \$542 per low-income pupil. Because the appropriation is fully encumbered, DPI will not accept additional revised pupil counts for the 2004-05 aid year. An additional \$1,826,400 would be necessary to fully fund all reported pupils at \$2,000 in 2004-05.

3. The Department estimates that SAGE low-income enrollment will continue to grow in each year of the biennium, resulting in estimated low-income enrollments of approximately 48,682 FTE in 2005-06 and 49,169 FTE in 2006-07. Based on these pupil counts, the Governor's proposal would provide an additional \$2,584,400 in 2005-06 and \$3,558,400 in 2006-07 to fully fund \$2,000 per low-income pupil.

4. The Governor's proposal would provide an additional \$12,170,500 in 2005-06 and \$24,584,500 in 2006-07 in order to provide per pupil payment increases of \$250 in 2005-06 and \$500 in 2006-07 above the \$2,000 current law payment, based on the projected annual enrollment increases. In addition, \$1,175,000 would be provided for a fourth round of SAGE contracts to allow an estimated 10 additional schools to join the program in 2006-07. Although funding was included in the bill for 10 new schools, no limit on the number of schools that may join the program is specified in statute under the bill. If the Committee approves this provision, it might be desirable to establish a limit on the number of schools eligible for a fourth round of SAGE contracts. If the Committee should choose not to authorize a fourth round of contracts, the corresponding funding for these 10 schools could also be deleted. The following table summarizes the SAGE funding increases proposed by the Governor.

	<u>2005-06</u>	<u>2006-07</u>
Base SAGE Funding	\$95,029,600	\$95,029,600
Proposed Increases for:		
Projected Increases in Pupils	\$2,584,400	\$3,558,400
Increase Aid to \$2,250/\$2,500	12,170,500	24,584,500
Fund 10 Additional Schools	<u>0</u>	<u>1,175,000</u>
Subtotal--Proposed Increase for SAGE	\$14,754,900	\$29,317,900
Proposed Total for SAGE	\$109,784,500	\$124,347,500

5. The SAGE per pupil payment amount has remained unchanged since the program's start in 1996-97. Some have suggested that the payment should be adjusted to account for inflation over the life of the program. If adjusted according to changes in the consumer price index since 1996-97, the payment would increase to an estimated \$2,459 in 2005-06 and \$2,498 in 2006-07, which would be consistent with the proposed \$2,500 payment in 2006-07 under AB 100. However, one could argue that, because the large majority of school districts joined the program in the third round of contracts in 2000-01, it can be assumed that \$2,000 per pupil was sufficient payment in that year. If adjusted for inflation since 2000-01, the payment would increase to an estimated \$2,240 in 2005-06 and \$2,276 in 2006-07, which would be consistent with the proposed \$2,250 payment in 2005-06 under AB 100.

6. Some school district officials have indicated that the current \$2,000 per low-income pupil aid amount does not fully cover the costs of complying with the requirements of the SAGE program. Even at the proposed \$2,500 per pupil amount in 2006-07, other school district revenues drawn from state general school aids and the local property tax levy subject to revenue limits would still be needed to fully fund these costs.

7. Some have argued that districts should be granted flexibility under the program, in order to allow them to better manage staffing costs related to SAGE. The Committee could choose to modify some program requirements, such as which school years are involved, so that SAGE could be run at less cost, in lieu of higher per pupil aid payments.

8. Proponents of further expansion of the program argue that SAGE provides valuable exposure to the small-class environment, which provides more opportunities for pupil improvement. Results from the 1999 Project STAR study, a follow-up study to a class-size reduction experiment in Tennessee conducted in the late 1980s, indicate that pupils who attended small size classes in kindergarten through grade 3 continued to outperform pupils who attended large size classes, even after they entered grades with larger classes. Academic gains made by the K-3 small-class students over their regular class counterparts were statistically significant and continued to grow in later grades, even after the students were placed in regular classes following grade three. The study reports that students who were in the small-class environment for at least four years completed more advanced courses in high school, were more likely to take college entrance exams, were less likely to be retained, and were less likely to drop out of high school than those who attended regular classes.

9. One could argue, however, that any exposure to the small-class environment, for example in kindergarten and grade 1, provides more opportunities for pupil improvement than no exposure to such an environment. The Committee could consider modifying the program to allow districts to forego aid for grades 2 or 3 and choose not to reduce class sizes in those grades. If districts would forego aid, at the end of each fiscal year, unexpended aid would lapse to the general fund.

10. To be eligible for funding under the first or second round of contracts in 1996-97 and 1998-99, respectively, school districts had to have at least one school with an enrollment made up of at least 50% low-income pupils in the previous school year. Eligible districts could then enter into a contract with DPI on behalf of one school in the district if in the previous school year, the school had an enrollment that was made up of at least 30% low-income pupils, and the school board was not receiving a preschool through grade five (P-5) grant on behalf of the school. The bill retains the current law requirement that, in order to be eligible for the new contracts, if a district was eligible for the program in 1996-97 and 1998-99, then the district must have participated in either year.

11. If the Committee wishes to open the SAGE program to as many districts as possible for the proposed fourth round of contracts, then it might be desirable to eliminate this restriction. One could argue that this ongoing restriction unnecessarily penalizes districts that might otherwise participate.

12. On the other hand, the program as it stands has a substantial impact on early education, affecting nearly 98,000 pupils enrolled across the state. Additionally, the third round of contracts that began in 2000-01 was open to nearly every school in the state that wished to reduce class size. One could argue that school districts that are inclined to participate in the program are likely already doing so.

13. Data collected for the SAGE evaluation study over the years is inconclusive at this time. Researchers have consistently found a positive and statistically significant effect of the SAGE program for pupils through grades 1, 2, and 3 compared to a contrast group. However, the 2004 evaluation reports that there was no cumulative effect for the SAGE program on the grade 4 Wisconsin Knowledge and Concepts Exam, which conflicts with the earlier data. According to the report, it is possible that the program has a more positive effect on minority pupils than on other pupils. High rates of student mobility and a relatively small sample of pupils from the first and second rounds of the program have contributed to the inconsistent pupil assessment results. It is not clear at this time whether the SAGE program produces significant or sustained improvements in pupil achievement, as compared to pupils enrolled in non-SAGE classrooms.

14. It could be argued that further expansion of the program should be delayed until more research can be conducted to determine whether the program positively impacts pupil achievement. Future evaluations will measure the ancillary impacts of the program as SAGE pupils continue to progress through the education system, examining whether such indicators as graduation rates and retention are affected by pupils' participation in SAGE. This type of longitudinal study would represent an analysis of the program potentially more accurate and meaningful than any

short-term test score comparison could provide.

ALTERNATIVES

A. Per Pupil Payment Amounts

1. Approve the Governor's recommendation to increase the per pupil payment to \$2,250 in 2005-06 and \$2,500 in 2006-07 and to provide \$14,754,900 in 2005-06 and \$28,142,900 in 2006-07.

2. Modify the Governor's recommendation to delete the second year increase in the SAGE per pupil amount and to delete \$12,292,200 in 2006-07. Under this alternative, the per pupil payment would increase to \$2,250 in 2005-06 and thereafter.

<u>Alternative A2</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$12,292,200

3. Delete the Governor's recommendation to increase the SAGE per pupil amounts and delete \$12,170,500 in 2005-06 and \$24,584,500 in 2006-07. This alternative would provide \$2,584,400 in 2005-06 and by \$3,558,400 in 2006-07 to fully fund estimated SAGE enrollments under current law.

<u>Alternative A3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$36,755,000

4. Delete the provision. Under this alternative, DPI would need to prorate payments if projected low-income enrollment increases occur in current SAGE schools.

<u>Alternative A4</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$42,897,800

B. Fourth Round of Contracts

1. Approve the Governor's recommendation to authorize a fourth round of SAGE contracts with a technical correction, beginning in 2006-07. If Alternative A1 would be approved, this alternative would include funding of \$2,500 per pupil, for total funding of \$1,175,000 in 2006-07.

2. Approve the Governor's recommendation to authorize a fourth round of SAGE contracts with a technical correction, beginning in 2006-07. If Alternative A2 would be approved, delete \$117,500 in 2006-07, which would leave \$1,057,500 in 2006-07 to fund \$2,250 per pupil.

<u>Alternative B2</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$117,500

3. Approve the Governor's recommendation to allow a fourth round of SAGE contracts with a technical correction, beginning in 2006-07. If Alternative A3 would be approved, delete \$235,000 in 2006-07, which would leave \$940,000 in 2006-07 to fund \$2,000 per pupil.

<u>Alternative B3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$235,000

4. Delete the provision.

<u>Alternative B4</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$1,175,000

C. Program Flexibility

1. Modify current law to allow participating SAGE districts to forego aid for any school, for grade 2, grade 3, or both, and to elect not to reduce class sizes in those grades, beginning in the 2005-06 school year. Under this alternative, any unexpended portion of the SAGE appropriation would lapse to the general fund at the end of each fiscal year.

2. Maintain current law.

D. Eligibility Restriction to School Districts that Previously Participated

1. Approve the Governor's recommendation to exclude from eligibility for the proposed fourth round of SAGE contracts any school district, if eligible to participate in 1996-97 and in 1998-99, did not participate in either year.

2. Delete the provision.

Prepared by: Layla Merrifield