



Legislative Fiscal Bureau

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Joint Committee on Finance

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Milwaukee and Racine Charter School Program Funding (DPI -- Choice and Charter)

[LFB 2005-07 Budget Summary: Page 408, #2]

CURRENT LAW

Under current law, charter schools are funded through one of two mechanisms. Under the first method, schools chartered by school districts throughout the state negotiate the level of funding with the district, which must be specified in the charter school contract for each school year covered by the contract. The pupils enrolled in the charter school are included in the district's membership for purposes of both revenue limits and equalization aid and the contract costs are eligible for state cost sharing under the equalization aid formula.

Under the second mechanism, certain charter schools in Milwaukee and Racine receive direct state funding, with an offsetting reduction to general school aids that is described below. Under the Milwaukee and Racine charter school program, the Common Council of the City of Milwaukee, the Chancellor of the University of Wisconsin-Milwaukee (UW-M), and the Milwaukee Area Technical College Board are authorized to operate or contract to operate charter schools located within the boundaries of the Milwaukee Public Schools (MPS). There is no limit on the number of charter schools that may be established by these entities, nor on the number of pupils that may attend. In 2004-05, 11 charter schools (six from UW-M and five from the City) are operating in Milwaukee with an estimated enrollment of 3,700 students. Pupils are eligible to attend Milwaukee charter schools if they reside in MPS and in the previous school year were either enrolled in MPS, enrolled in a charter school, enrolled in a school participating in the Milwaukee parental choice program, enrolled in a private, non-choice school in the City in grades kindergarten to three, or were not enrolled in school. In addition, the Chancellor of the University of Wisconsin-Parkside is authorized to operate or contract to operate one charter school operating grades kindergarten through eight and enrolling a maximum of 400 pupils,

located within the Racine Unified School District (RUSD). Only pupils who reside in RUSD may attend the charter school. In 2004-05, an estimated 350 pupils are attending this school.

The Department of Public Instruction (DPI) is required to pay the operators of Milwaukee and Racine charter schools an amount equal to the sum of the amount paid per pupil in the previous school year and the increase in the per pupil amount paid to private schools under the choice program, multiplied by the number of pupils attending the charter school. This payment is made from a separate general purpose revenue (GPR) sum sufficient appropriation. There is an additional aid payment to RUSD related to the Racine charter school, for pupils who were previously enrolled in RUSD, which is also made from this separate appropriation. Payments for these charter schools are fully offset by a proportionate reduction in the GPR expenditures for general school aids of all 426 public school districts. In 2004-05, the per pupil payment amount is \$7,111 and it is estimated that a total of approximately \$28.7 million will be paid to these charter schools. The additional payment to RUSD is estimated to total approximately \$1.15 million. In total, charter school program expenditures and the associated charter school program aid reduction are estimated to be \$29.9 million in 2004-05.

Pupils attending schools participating in the Milwaukee and Racine charter school program are not counted by any school district for purposes of revenue limits and equalization aid, and costs associated with the program are excluded from cost sharing under equalization aid. However, school district revenue limits are not affected by the charter school program reduction in general school aid. Thus, a school district may levy property taxes to offset the amount of revenue lost due to these aid reductions.

GOVERNOR

Maintain the current law funding mechanism for the Milwaukee and Racine charter school program. Under the bill, the charter schools appropriation is estimated at \$35,248,100 in 2005-06 and \$39,168,300 in 2006-07. General school aids for all 426 public school districts would be reduced proportionately by those amounts in those years

DISCUSSION POINTS

1. The current method of funding the Milwaukee and Racine charter school program was enacted in the 1999-01 budget. Prior to that act, both the Milwaukee charter school program and the Milwaukee parental choice program were funded by generally allowing MPS to count the pupils in the programs in membership and making a reduction to MPS' general aid to offset the costs of the programs. Because of concerns over the growth in both programs, the aid reductions were modified in the 1999-01 budget to become statewide, with the general aids for all districts reduced to offset the costs of the programs. The aid reductions relating to the choice program for all districts besides MPS were eliminated under the 2001-03 budget, due in part to concerns that a distinct aid reduction was being made to districts other than MPS for a program that did not serve other districts. The funding structure for the Milwaukee and Racine charter school program was not

modified in that act.

2. Based on similar concerns that have been raised regarding the Milwaukee and Racine charter school program, the Committee could consider modifying the program's funding structure at this time. A number of options exist for funding the charter school program that would not involve a statewide general school aids reduction to offset charter school program costs.

3. One alternative would be to eliminate the statewide general school aids reduction related to the program and to reduce the general school aids appropriation by an equal amount. Under this alternative, the charter school program would be fully state funded, but general fund expenditures in total would not increase because the general school aids appropriation would be reduced by the cost of the charter school program.

4. Had this alternative been in effect in 2004-05, the general school aids appropriation would have been reduced by \$29.9 million, but the net aid payments to districts on a statewide basis would have remained unchanged, because the payments would not have been subject to the \$29.9 million charter school reduction.

5. While this alternative would not affect the general fund, there would be distributional impacts on school districts. Reducing the amount of general school aids funding would result in a lower secondary guarantee under the equalization aid formula, which would reduce the amount of aid most districts would otherwise receive at the secondary tier of the formula. The current law charter school reduction, however, is calculated by taking a proportionate reduction of each district's aid eligibility after the equalization aid calculations have been made.

6. Had this alternative been in effect in 2004-05, 270 districts would have seen a total increase of \$6.5 million in aid, while 155 districts would have lost aid in the same amount. One district's net payment would have remained unchanged. Under revenue limits, school districts with an increase in aid would have decreased levies correspondingly, while districts with an aid decrease would have had the option of increasing their levies to replace the decrease.

7. Under this option, school districts that receive primary aid only under the equalization aid formula would no longer be affected by the charter school program. Because these districts do not receive secondary aid, the changes to the secondary guarantee under this alternative would not affect these districts. Under current law, the proportionate reduction for the charter school program reduces the primary aid for these districts.

8. A second alternative would be to offset the costs of the charter school program by treating the program as a first draw from the general school aids appropriation, similar to the method for funding the integration aid (Chapter 220) program. Under this alternative, the amount appropriated for general school aids would remain unchanged. The estimated funding needed for the charter school program would, however, be subtracted from the amount appropriated for general school aids before setting the secondary guarantee, the factor in the equalization aid formula that is adjusted to fully distribute the amounts in the general school aids appropriations. The equalization

aid formula would be run based on a lower secondary guarantee, and school districts would no longer be subject to a proportional reduction taken at the end of their general aids calculations. The amount set aside as a first draw for the charter school program would remain unspent and be returned to the general fund at the end of the fiscal year. Charter schools would continue to receive their payments from the separate GPR sum sufficient appropriation.

9. Had this alternative been in effect in 2004-05, the gross amount of funding distributed as equalization aid would have been reduced by \$29.9 million, but the net aid payments to districts on a statewide basis would have remained unchanged, because the gross payments under the proposal would not have been subject to the \$29.9 million charter school reduction.

10. While this alternative would not affect the general fund, the distributional impacts on school districts would be the same as those described under the first alternative.

11. The primary difference between these two alternatives would be the treatment of future cost increases in the charter program. The first alternative would offset the costs of the charter program through the 2005-07 biennium, by directly reducing the equalization aid appropriation. However, beginning in 2007-08, if charter program costs increase, no further aid offset would occur. The second alternative would annually offset the costs of the charter program in the future, by making the aid reduction a first draw from the equalization aid appropriation. The first alternative is the simpler approach, because the aid reductions are done once, in the 2005-07 biennium, and there is no further interaction between the equalization aid appropriation and the charter program. The second alternative would hold the general fund harmless, even if program costs increase after the 2005-07 biennium.

12. A third alternative for funding the Milwaukee and Racine charter school program would be to have the state fund a portion of the program and to target the general school aids reduction to MPS and RUSD, rather than have a statewide reduction. Such an alternative could be patterned after the funding structure for the choice program, under which 55% of the program's costs are funded from the general fund and 45% are funded from a reduction in MPS general school aids.

13. While there are many possible ways to divide the share of charter school program costs borne by the state, MPS, and RUSD under this alternative, one option would be to set the proportions similar to those for the choice program, with the state funding 55% of the cost and reductions made to general school aids for MPS and RUSD funding the other 45%. The MPS and RUSD reductions could be calculated proportionately based on the number of pupils in each district participating in the charter school program in a given year. Had this option been effective in 2004-05, the state's 55% share of charter school program costs would have been \$16.5 million. The 41% aid reduction for MPS would have been \$12.3 million (compared to \$4.6 million under current law) and the 4% aid reduction for RUSD would have been \$1.2 million (compared to \$840,000 under current law).

14. Under this alternative, there would no longer be a proportional aid reduction for all

school districts in the state. This alternative would also increase general fund expenditures. The method for allocating the reduction between MPS and RUSD would also impact those districts' net aid payments and property tax levies.

15. A fourth alternative would be to allow MPS and RUSD to include the cost and membership of the charter school program in the data used to determine revenue limits and general school aids and to target the entire charter school program aid reduction to MPS and RUSD, based on the number of pupils in each district participating in the program. Under this alternative, the pupil counts and charter school costs would be incorporated into all three years of revenue limit data and into the prior year data used to calculate general aids immediately in the first year that the alternative would be in effect. Because MPS and RUSD would count these pupils for revenue limits and aid purposes, the targeted aid reduction would not be replaced by the property tax levy. However, the aid reduction amounts would be included in shared costs by MPS and RUSD.

16. Had this alternative been in effect in 2004-05, the MPS revenue limit would have been an estimated \$27.6 million higher than under current law, and MPS aid eligibility would have increased by an estimated \$27.6 million. Since the revenue limit and aid increases would have been similar, the MPS levy would have remained unchanged compared to current law. MPS would also have been subject to a \$27.4 million charter school program reduction in general school aids, which would have offset the state cost of paying for the charter school pupils. This aid reduction could not have been replaced with levy.

17. The RUSD revenue limit would have been approximately \$2.6 million higher than under current law, and the District's aid eligibility would have increased by \$2.6 million. Since the revenue limit and aid increases would have been similar, the RUSD levy would have remained unchanged compared to current law. RUSD would, however, have been subject to a \$2.6 million charter school program reduction, which would have offset the state cost of paying for the charter school pupils. This aid reduction could not have been replaced with levy.

18. With Milwaukee and Racine charter school program pupils and costs included in the equalization aid formula for MPS and RUSD, 304 districts (excluding MPS and RUSD) would have seen a net aid increase of \$5.2 million, while 120 districts would have lost \$5.4 million of aid. The net aid gains or losses for each district would have resulted in corresponding levy changes under revenue limits.

19. It could be argued that, under this alternative, the charter schools sponsored by UW-Milwaukee, UW-Parkside, and the City of Milwaukee would be treated in a manner similar to charter schools sponsored by school districts. Under this alternative, all pupils attending charter schools and the associated costs of the charter schools would be incorporated into revenue limits and the equalization aid formula, regardless of who charters the school. MPS and RUSD would then pay for the operations of the independent charter schools from their funds, with the payment amounts determined under state law rather than an agreement between the district and the charter school operator.

20. This alternative would also be similar to the open enrollment program, under which the district of residence counts pupils in its membership for revenue limit and equalization aid purposes, and then transfers a statutorily-specified amount to the district that provides educational services to the pupil.

21. While this alternative would eliminate the separate general school aids reduction for the charter school program for all districts other than MPS and RUSD, the charter school program would still impact the amount of the aid that would be received by most other school districts through the equalization aid formula itself. Since the secondary and tertiary guarantees and the secondary cost ceiling are affected by changes in statewide district costs or memberships, changes in the charter school program would impact the statewide aid distribution, similar to the effect that changes in any school district's costs and membership would impact aid distribution. Also, under this alternative, primary aid only districts would be unaffected by the charter school program.

ALTERNATIVES

For any of the first four alternatives, delete the statutory provision under which the general school aids payments to all school districts are reduced proportionately in an amount equal to the total payments to schools in the Milwaukee and Racine charter school program, beginning in 2005-06. In addition:

1. Delete \$35,248,100 GPR in 2005-06 and \$39,168,300 GPR in 2006-07 from the general school aids appropriation. Also, delete the related reduction from general school aids of \$35,248,100 in 2005-06 and \$39,168,300 in 2006-07. The savings from the reduction in the general school aids appropriation would be offset by the loss of the charter school program aid reduction, resulting in no net effect on the general fund.

<u>Alternative 1</u>	<u>GPR</u>	<u>Aid Reduction</u>	<u>Net</u>
2005-07 FUNDING (Change to Bill)	-\$74,416,400	-\$74,416,400	\$0

2. Specify that the Milwaukee and Racine charter school program be funded as a first draw from the general school aids appropriation. Specifically, modify the statutory definition of the secondary guarantee of the equalization formula to subtract the estimated appropriation for the charter school program from the amounts appropriated for general school aids for the purpose of setting the guarantee. This alternative would have no net effect on the general fund.

3. Specify that the state pay 55% of the estimated cost of the charter school program and that the general school aids that would otherwise be paid to MPS and RUSD would be reduced, in total, by the remaining 45%, with each district's reduction based proportionately on the estimated number of pupils enrolled in the charter schools in those districts in the given school year. Modify the related reduction from general school aids by -\$19,386,500 in 2005-06 and -\$21,542,600 in 2006-07. This would result in increased net GPR costs equal to those amounts in those years.

<u>Alternative 3</u>	<u>Aid Reduction</u>
2005-07 FUNDING (Change to Bill)	- \$40,929,100

4. Allow MPS and RUSD to include the cost and membership of the charter school program in the data used to determine revenue limits and general school aids. Specify that the general school aids that would otherwise be paid to MPS and RUSD would be reduced, in total, by the estimated cost of the charter school program, with the each district's reduction based proportionately on the estimated number of pupils enrolled in the charters in those districts in the given school year. Specify that the districts would not be able to levy to replace the aid reduction. Also, specify that the pupil counts and charter school costs would be incorporated into all three years of revenue limit data and into the prior year data used to calculate general aids immediately beginning in 2005-06. This alternative would have no net effect on the general fund.

5. Maintain current law.

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