



Legislative Fiscal Bureau

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Joint Committee on Finance

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

CURRENT LAW

Under current law, the Common Council of the City of Milwaukee, the Chancellor of the University of Wisconsin-Milwaukee (UW-M), and Milwaukee Area Technical College (MATC) are authorized to establish by charter and operate, or contract with a group or individual to operate a charter school. 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 increase in the per pupil amount paid to private schools under the Milwaukee parental choice program. These pupils are not counted by any school district for purposes of revenue limits or general school aids. Currently, four schools are operating under the City's chartering authority, and seven 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 \$7,111 in 2004-05, and 3,705 pupils are attending these schools.

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. DPI is required to make payments to the University of Wisconsin-Parkside, equal to those made to independent Milwaukee charter schools, to operate an independent charter school. 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 and to RUSD is deducted proportionally from the general school aids paid to all school districts in the state. In 2004-05, it is estimated that this \$29.9 million reduction will represent a 0.7% decrease in the general school aids received by all school districts. A school district's revenue limit calculation is not affected by the Milwaukee and Racine charter school program reduction in aid. Therefore, a school district can increase its property tax levy to offset any aid reduction related to this program.

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.

GOVERNOR

No provision relating to payments to the Racine Unified School District.

DISCUSSION POINTS

1. 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 21st Century Preparatory School, opened in the fall of 2002, serving 255 pupils in kindergarten through fourth grade. The 21st Century Preparatory School will be eligible to receive an estimated \$2,510,000 in 2004-05 for 353 pupils, based on the \$7,111 charter school per pupil payment amount.

2. 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 2004-05, the RUSD received equalization aid per member equal to \$5,400. Thus, the RUSD will receive an estimated \$1.15 million in 2004-05 in payments for an estimated 213 pupils who left the District in order to enroll in 21st Century Preparatory. These monies are outside of revenue limits and can be used by RUSD for any spending purpose. This additional aid for RUSD is funded from aid reductions affecting all other school districts in the state.

3. For the 2005-07 biennium, it is estimated that RUSD will be eligible for equalization aid payments per pupil equal to \$5,710 in 2005-06 and \$5,871 in 2006-07 under the bill. It is assumed that 21st Century Preparatory will enroll 260 pupils who were previously enrolled in RUSD in each of these years, resulting in total estimated payments to RUSD of \$1,484,600 in 2005-06 and \$1,526,500 in 2006-07.

4. 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 and revenue limit authority 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.

5. In Milwaukee, on the other hand, MPS receives no aid or other compensation in order to offset lost membership or revenue limit authority for pupils who choose to leave MPS 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.

6. 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 21st Century Preparatory 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 outside of revenue limits for pupils it is no longer required to educate.

7. The Committee could consider treating RUSD and MPS equally under the charter school law, by removing the additional aid payment to RUSD or by providing a similar payment to MPS. If a similar provision had been applied to the Milwaukee program, MPS could have received an estimated \$14 million in additional aid in 2004-05, using the \$6,255 per pupil equalization aid payment for MPS, multiplied by 3,705 charter school pupils, and assuming that 60% of these pupils were previously enrolled in MPS. It is estimated that 4,100 pupils will attend Milwaukee charter schools in 2005-06, and 4,500 in 2006-07. Assuming that MPS will be eligible to receive equalization aid payments equal to \$6,550 per pupil in 2005-06 and \$6,750 per pupil in 2006-07, MPS could receive additional aid of \$16,113,000 in 2005-06 and \$18,225,000 in 2006-07, assuming 60% of these pupils were previously enrolled in MPS.

8. The RUSD has used this state aid as an additional resource to support its operations, even though these pupils have left the District. Reducing or eliminating this aid could force reductions in programs and services for pupils still attending RUSD.

9. However, under the three-year rolling average for revenue limit calculations, these pupils do 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 for pupils who have chosen to leave the District.

10. RUSD was among 266 school districts with declining enrollments in 2004-05. One could argue the District faces an additional hardship when pupils leave the District to enroll in the charter school. On the other hand, there is no categorical aid aimed at other districts with declining enrollments. Because both the RUSD and 21st Century Preparatory 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, inflating the cost of the Milwaukee and Racine charter school program by \$1.15 million in 2004-05.

11. Because the RUSD payment is ongoing, the RUSD has received payments each year since 2002-03 for pupils attending the charter school who were, in any year, previously enrolled in the district. The Committee could modify this provision to phase-out these payments over the next three years. This would gradually eliminate this additional aid, to assist RUSD in adjusting its operations, without providing ongoing revenues attributable to pupils whom RUSD is no longer responsible for educating.

12. If phasing-out the aid for RUSD would be an undesirable change to current policy, the Committee could cap this aid at the amount received by RUSD in 2004-05. Under this alternative, aid to RUSD would be the lesser of the payment received in 2004-05, or the amount generated under current law. This would allow RUSD to retain its current resources, but would avoid the increases that otherwise would be provided under the bill.

13. Under the bill, the amount included in the charter appropriation that is attributable to payments to RUSD is calculated based on the estimated equalization aid payments to RUSD if the state would provide the funding recommended by the Governor. If the amounts provided for general school aids would differ from the bill, the estimated aid payments to RUSD in 2005-07 would change.

ALTERNATIVES

1. Specify that RUSD would receive 75% of the current law aid entitlement in 2005-06, 50% in 2006-07, 25% in 2007-08, and no aid under this provision in 2008-09 and thereafter. Estimated payments to RUSD under this alternative would total \$1,113,500 GPR in 2005-06 and \$763,200 GPR in 2006-07, which would represent a change of -\$371,100 in 2005-06 and -\$763,200 in 2006-07 from the bill. The related statewide reduction in general school aid would be lowered correspondingly.

<u>Alternative 1</u>	<u>GPR</u>	<u>Aid Reduction</u>	<u>Net</u>
2005-07 FUNDING (Change to Bill)	- \$1,134,300	- \$1,134,300	\$0

2. Limit the payment to RUSD for charter school pupils previously enrolled in the District to the lesser of the current law aid entitlement or the amount received in 2004-05. Estimated payments to RUSD under this alternative would total \$1,150,000 in 2005-06 and in 2006-07, which would represent a change of -\$334,600 in 2005-06 and -\$376,500 in 2006-07 from the bill. The related statewide reduction in general school aid would be lowered correspondingly.

<u>Alternative 2</u>	<u>GPR</u>	<u>Aid Reduction</u>	<u>Net</u>
2005-07 FUNDING (Change to Bill)	- \$711,100	- \$711,100	\$0

3. Require DPI to pay MPS an amount equal to its current year equalization aid per pupil multiplied by the number of pupils attending independent charter schools in Milwaukee who were previously enrolled in the District. Aid would be paid in the same manner in which additional aid is currently paid to the RUSD, beginning in the 2005-06 school year. In 2005-06, MPS would receive an estimated \$16,113,000, and an estimated \$18,225,000 in 2006-07. General school aids would be reduced by corresponding amounts.

<u>Alternative 3</u>	<u>GPR</u>	<u>Aid Reduction</u>	<u>Net</u>
2005-07 FUNDING (Change to Bill)	\$34,338,000	\$34,338,000	\$0

4. Maintain current law.

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