



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #653

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

#### *Bill Agency*

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#### **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 2006-07, 14 charter schools (nine from UW-M and five from the City) are operating in Milwaukee with an estimated enrollment of 4,570 students. In general, only pupils who reside in MPS are eligible to attend these charter schools. 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 480 pupils, located within the Racine Unified School District (RUSD). Only pupils who reside in RUSD may attend the charter school. In 2006-07, an estimated 430 pupils are attending this school.

The Department of Public Instruction (DPI) is required to pay the operators of Milwaukee and Racine charter schools a statutorily-determined amount per pupil each year. In 2006-07, the per pupil payment amount is \$7,669 and it is estimated that a total of over \$38.3 million will be paid to these charter schools. There is an additional aid payment to RUSD related to the Racine charter school, which is estimated to total over \$1.5 million in 2006-07 and is calculated by multiplying Racine's gross equalization aid per pupil by the number of pupils attending the charter school who were previously enrolled in RUSD. These payments are made from a separate general purpose revenue (GPR) sum sufficient appropriation. By law, DPI is required to proportionally reduce the general school aids for which each school district is eligible by an amount totaling the estimated payments under the charter school program. Based on the October 15, 2006, general school aids estimate prepared by DPI, the charter school program aid reduction is estimated to be \$39.9 million in 2006-07. Each district's general school aids will be reduced proportionately by 0.8% to generate the \$39.9 million.

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 \$44,179,000 in 2007-08 and \$48,804,000 in 2008-09. General school aids for all 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 the 2007-09 biennium in total would not increase because the general school aids appropriation would be reduced by the estimated cost of the charter school program.

4. Had this alternative been in effect in 2006-07, the general school aids appropriation would have been reduced by \$39.9 million, but net general aid payments to districts on a statewide basis would have remained unchanged, because the payments would not have been subject to the \$39.9 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 2006-07, 272 districts would have seen a total increase of \$8.9 million in aid, while 153 districts would have lost aid totaling the same amount. 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 only primary aid 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 appropriation. 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 2006-07, the gross amount of funding distributed as equalization aid would have been reduced by \$39.9 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 \$39.9 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 above 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 2007-09 biennium, by directly reducing the equalization aid appropriation. However, beginning in 2009-10, 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 2007-09 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 2007-09 biennium.

12. A third 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 limit 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.

13. This alternative was included in the Legislature's version of the 2005-07 biennial budget. However, the provisions were item-vetoed by the Governor, maintaining the current law charter school funding structure.

14. Had this alternative been in effect in 2006-07, the MPS revenue limit would have been an estimated \$36.1 million higher than under current law, including interactions with the current declining enrollment adjustment, and MPS aid eligibility would have increased by an estimated \$37.0 million. As a result, the MPS levy would have been reduced by \$0.9 million compared to current law. MPS would also have been subject to a \$36.4 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.

15. The RUSD revenue limit would have been approximately \$3.4 million higher than under current law, and the District's aid eligibility would have increased by \$3.6 million. As a

result, the RUSD levy would have been reduced by \$0.2 million compared to current law. RUSD would, however, have been subject to a \$3.4 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.

16. With Milwaukee and Racine charter school program pupils and costs included in the equalization aid formula for MPS and RUSD, 284 districts (excluding MPS and RUSD) would have seen a net aid increase of \$7.1 million, while 139 districts would have lost \$7.8 million of aid. The net aid gains or losses for each district would have resulted in corresponding levy changes under revenue limits.

17. 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.

18. 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. A district cannot replace any net loss of aid from open enrollment transfers with levy.

19. Funding under this alternative, however, would differ from funding for district-sponsored charter schools in that payment amounts for independent charter schools are determined under state law rather than through an agreement between the district and the charter school operator. Also, the City and UW-Milwaukee make the decision to charter new schools and to enroll a certain number of students at each school. (Statutorily, UW-Parkside is limited to operating one school with a capped enrollment). As such, MPS and RUSD would be required to fund schools over which they would have no operational control.

20. 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 TO BILL

For any of the first three 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 2007-08. Under all three alternatives, the additional aid payment to RUSD would be retained. In addition:

1. Delete \$44,179,000 GPR in 2007-08 and \$48,804,000 GPR in 2008-09 from the general school aids appropriation. Also, delete the related reduction from general school aids of \$44,179,000 in 2007-08 and \$48,804,000 in 2008-09. 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.

ALT 1	Change to Bill Funding	Change to Base Funding
GPR	-\$92,983,000	-\$92,983,000
Aid Reduction	<u>- 92,983,000</u>	<u>- 92,983,000</u>
Net GPR	\$0	\$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 unused funding would then lapse to the general fund. This alternative would have no net effect on the general fund.

3. 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. This aid reduction would lapse to the general fund. 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 2007-08. This alternative would have no net effect on the general fund.

4. Maintain current law.

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