



Legislative Fiscal Bureau

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

May 19, 2009

Joint Committee on Finance

Paper #645

Independent Charter School Per Pupil Payment Amount (DPI -- Choice and Charter)

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 independent 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 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 be enrolled. In 2008-09, 15 charter schools (10 from UW-M and five from the City) are operating in Milwaukee, with an estimated enrollment of 4,817 FTE 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 establish 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 within RUSD may attend the school. In 2008-09, 479 FTE pupils are attending the 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. There is an additional aid payment to RUSD related to the Racine charter schools, which is estimated to total \$1.7 million in 2008-09, and is calculated by multiplying RUSD's gross equalization aid per pupil by the number of pupils attending the charter school who were previously enrolled in RUSD. In 2008-09, the per pupil payment amount is \$7,775, and it was

estimated that \$41.8 million would be paid to these charter schools. 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, 2008, general school aids estimate prepared by DPI, the charter school program aid reduction will total \$43.5 million in 2008-09. Each district's general school aids will be reduced proportionally by 0.9% to generate the \$43.5 million needed to offset the GPR cost of the program.

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, so that a school district may levy property taxes to offset the amount of revenue lost due to the reduction.

GOVERNOR

Reestimate funding at \$48,350,000 in 2009-10 and \$56,125,000 in 2010-11 for the Milwaukee and Racine charter school program, representing a change to base level funding of -\$577,500 in 2009-10 and \$7,197,500 in 2010-11. The statewide charter reduction would increase by a corresponding amount, resulting in no net effect on the general fund.

DISCUSSION POINTS

1. The charter school program was created in 1997 Act 27. Originally, the charter school payment amount was based on the shared cost per member for MPS in the previous school year. However, this provision was changed in 1999 Act 9, so that the per pupil payment amount for these charter schools equaled the sum of the previous year's payment plus the amount of revenue increase per pupil allowed in the current school year. Under 2003 Act 33, the method of adjusting the charter school payment was changed to the current law adjustment method, based on the per pupil adjustment allowed under the choice program, beginning in 2003-04. The following table shows the history of charter school per pupil payments since the program began in 1998-99.

	<u>Per Pupil Amount</u>	<u>Change to Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>
1998-99	\$6,062		
1999-00	6,272	\$210	3.5%
2000-01	6,494	222	3.5
2001-02	6,721	227	3.5
2002-03	6,951	230	3.4
2003-04	7,050	99	1.4
2004-05	7,111	61	0.9
2005-06	7,519	408	5.7
2006-07	7,669	150	2.0
2007-08	7,669	0	0.0
2008-09	7,775	106	1.4

2. As the table shows, from 1999-00 through 2002-03, the per pupil payment amount was adjusted annually by an amount equal to the per pupil adjustment allowed under revenue limits for school districts, or an average of 3.5% annually. The statutory requirement that the state fund two-thirds of partial school revenues was eliminated under 2003 Act 33, at the same time the calculation of charter adjustments was changed. Prior to that change, from 1996-97 to 2002-03, the general school aids appropriation increased by an average of 4.7% annually. Since 2003-04, general school aids have increased by an average of 2.3% annually. The annual increase in the charter payment amount has been 2.5% on average, but has seen dramatically different change amounts, from zero up to \$408 per pupil.

3. In 2008-09, the per pupil payment amount is equal to \$7,775. The charter school funding reestimate is addressed in a separate paper. However, based on current law and the Governor's recommendations for general school aids funding, the charter payment amount would remain unchanged in 2009-10 and increase by 0.4% in 2010-11.

4. Some have argued that the per pupil adjustment should be changed back to the method in effect prior to 2003 Act 33. Given recent trends in appropriated increases for general school aids, the per pupil adjustment provided under revenue limits would provide more consistent increases in funding and more revenue for charter schools overall. The following table shows actual charter per pupil payments, annual per pupil adjustments allowed under revenue limits, and the amounts that would have been paid to charters if the per pupil had been adjusted with revenue limit adjustments, from 2003-04 to 2008-09.

	<u>Actual Charter Payments</u>	<u>Annual Revenue Limit Per Pupil Adjustment</u>	<u>If Charter Payments Had Been Adjusted by Revenue Limit Amount</u>
2003-04	\$7,050	\$237	\$7,188
2004-05	7,111	241	7,429
2005-06	7,519	248	7,677
2006-07	7,669	257	7,934
2007-08	7,669	264	8,198
2008-09	7,775	275	8,473

5. As the table shows, the charter school per pupil payment amount would have been substantially higher, by nearly \$700 in 2008-09, if the prior per pupil adjustment method had been used since 2003-04. Compared to the charter school adjustment, the revenue limit adjustment has also been relatively predictable, because it has been adjusted for the change in the consumer price index (CPI) each year. On the other hand, the revenue limit adjustment has been the subject of debate at times, and some have proposed dramatically scaling back the per pupil amount. This has been particularly true in years when scarce state resources and concerns about property tax increases have predominated.

6. It is anticipated that the revenue limit per pupil adjustment will likely remain at

around \$275 in 2009-10, because CPI declined over the past year. If the Committee chose to modify current law to adjust the charter school payment by the revenue limit adjustment provided to school districts, then the charter school payment would equal an estimated \$8,050 in 2009-10 and \$8,329 in 2010-11. Aid to charter schools would equal \$48,944,000 in 2009-10 and \$58,303,000 in 2010-11. Compared to funding included in the bill as reestimated, the change would require an additional \$1,672,000 in 2009-10 and \$3,878,000 in 2010-11, with offsetting aid reductions that would result in no net cost to the general fund (Alternative 1).

7. Proponents of this measure have argued that independent charter schools are public schools, subject to requirements such as pupil assessment and teacher licensing that apply to all public schools. Charter schools are also subject to federal requirements under the Elementary and Secondary Education Act ("No Child Left Behind") as well as the federal special education law (Individuals with Disabilities Education Act (IDEA)). Some have argued that, because charter schools are expected to meet the same performance measures as public schools on the Wisconsin knowledge and concepts exams, that they should receive funding that is more comparable to other public schools. All other public schools receive per pupil revenue limit adjustments each year, while independent charters received level per pupil funding in 2007-08, and would again be level-funded under AB 75 in 2009-10.

8. On the other hand, significant increases in the charter school payment would raise property taxes statewide. Higher charter school payments result in a larger reduction in general school aids for all school districts in the state, and has no net effect on the general fund. However, because revenue limits are unaffected by the charter school reduction in general school aids payments, districts are allowed to backfill the loss with property tax levy.

9. The Committee might also consider that charter schools are exempted from many state statutes that apply to school districts, presumably providing them with opportunities to be more flexible and efficient in their operations. For example, charter schools are not required to provide transportation for their students, as opposed to school districts that are generally required to transport both their own students and qualifying private school students.

10. It could be argued that linking the increase in the choice and charter payments to the percentage increase in general school aids for school districts is desirable, since the state then provides equivalent increases in aid to school districts, choice schools, and charter schools. The per pupil payment using this method of increase has been lower than it would have been if charter schools had received larger aid increases, so the reduction from each district's general school aids has likewise been lower. Because revenue limits remain in place, and the overall reduction amount has been lower, the corresponding levy backfill has also been smaller.

11. The state has a number of different formulas for determining per pupil funding amounts under K-12 programs, and there is no payment that directly parallels the charter school per pupil payment. For example, the statewide average net general aid payment per member was \$5,444 in 2008-09. This amount represents unrestricted aid and is the largest source of support for the K-12 education system. As such, it could be argued that this payment is similar to the charter school payment. This general aid amount is \$2,331 less than the 2008-09 charter school per pupil payment. However, unlike public schools, charter schools do not have access to revenues generated by the property tax levy. The statewide total net revenue limit authority per pupil was \$9,836 in 2008-09,

or \$2,061 more than the charter school payment. This figure is a better representation of the total resources available to school districts, setting aside categorical aids and federal funding, which are outside revenue limits.

12. It could be argued that the revenue limit per pupil adjustment would represent an unfairly large increase for charter schools, considering their current resource base. The per pupil adjustment as a percentage of the statewide average base revenue per pupil equals 2.9% in 2008-09. Compared to the charter school payment, the revenue limit adjustment would represent a 3.5% increase. In that sense, the adjustment would provide charter schools with a larger percentage increase in base resources than that provided to public schools.

13. If the Committee's goal were to increase resources for charter schools, while providing them more predictable incremental increases, then it could set an annual per pupil adjustment in statute. For example, to provide an increase of 2.9% compared to the base, equal to that provided to school districts in 2008-09, the per pupil adjustment would equal approximately \$225 in 2009-10, for a total payment of \$8,000 in 2009-10. Thereafter, the increment could be adjusted by CPI, as is done for the revenue limit per pupil adjustment. Increasing this charter adjustment by the estimated CPI would result in a \$229 adjustment the following year, for a total payment of \$8,229 in 2010-11 (Alternative 2).

14. Alternatively, the Committee might also consider that independent charter schools are currently eligible for some state categorical aids. Independent charter schools received \$546,000 in special education aid, \$26,600 in school lunch aid, and \$11,800 for teacher mentoring in 2007-08. If the Committee determined that charter schools should receive more state funding, then it would be possible to specify that charter schools are eligible for one or more current law categorical aids, such as bilingual-bicultural education aid, alternative education grants, alcohol and other drug abuse grants, and pupil transportation aid for those schools that choose to provide transportation (Alternative 3). The advantage of such an approach would be that it would not increase property taxes, and would provide additional resources for independent charter schools. On the other hand, charter schools would compete with all other school districts for scarce resources, and draw funding from categorical aid appropriations that are already prorated.

ALTERNATIVES

1. Provide that independent Milwaukee and Racine charter schools, beginning with the 2009-10 school year, receive a per pupil payment equal to the prior year's payment plus the per pupil adjustment allowable under revenue limits. Charter school payments would equal an estimated \$8,050 in 2009-10 and \$8,329 in 2010-11. Increase GPR funding and the offsetting aid reduction by \$2,294,000 in 2009-10 and \$3,878,000 in 2010-11.

ALT 1	Change to Bill Funding
GPR	\$5,550,000
Statewide Aid Reduction	<u>- 5,550,000</u>
Net GPR	\$0

2. Provide that aid independent Milwaukee and Racine charter schools equal the prior year's per pupil payment plus \$225 in 2009-10. In subsequent years, provide that the \$225 per pupil adjustment amount would be adjusted by the percentage change in the consumer price index. Charter school payments would equal an estimated \$8,000 in 2009-10 and \$8,229 in 2010-11. Increase GPR funding and the offsetting aid reduction by \$1,368,000 in 2009-10 and \$3,178,000 in 2010-11.

ALT 2	Change to Bill Funding
GPR	\$4,546,000
Statewide Aid Reduction	<u>- 4,546,000</u>
Net GPR	\$0

3. Provide that independent Milwaukee and Racine charter schools would be eligible for one or more of the following current law categorical aids:

- a. bilingual-bicultural education aid
- b. pupil transportation aid
- c. alternative education grants
- d. grants for alcohol and other drug abuse prevention and intervention programs

4. Maintain current law.

Prepared by: Layla Merrifield