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Joint Committee on Finance

Paper #506

Integration Aid/Chapter 220 Program (DPI -- General Schools Aids and Revenue Limits)

[LFB 2015-17 Budget Summary: Page 340, #3]

CURRENT LAW

Under the integration aid program (commonly called Chapter 220 after the 1975 session law), the state provides funds as an incentive for school districts to voluntarily improve racial balance within and between school districts. To be eligible, a district must transfer pupils between attendance areas or districts with certain concentrations (a 30% threshold) of minority or nonminority pupil populations. A minority group pupil is defined as a pupil who is Black or African American, Hispanic, American Indian, an Alaskan native, or a person of Asian or Pacific Island origin.

Integration aid funding is provided as a first draw from the general school aids appropriation. Aid is calculated through two different formulas depending upon whether a pupil is transferred within a district (intradistrict) or from one district to another (interdistrict). Under both formulas, school districts receive state aid based on the number of pupils transferred in the prior school year. Pupils attending schools serving an entire school district are statutorily eligible for aid. This could include magnet schools or specialty schools that can have citywide attendance areas. School districts with merged attendance area (school pairing) plans are also eligible for aid.

Intradistrict aid is equal to the district's equalization aid per pupil multiplied by 25% of the number of eligible transfer pupils. As part of the neighborhood schools initiative in 1999 Act 9, a hold harmless was established on the amount of intradistrict aid that would be received by the Milwaukee Public Schools (MPS). The neighborhood schools initiative was designed to assist MPS in the renovation and construction of school facilities and in the delivery of educational services for children in that district. A total of \$98.5 million in bonds have been issued under the

initiative, which was intended to reduce the number of pupils who are transported outside of their neighborhood under the intradistrict transfer program. Under the MPS hold harmless, if MPS' intradistrict aid entitlement generated under the formula, prior to other aid reductions, is less than MPS' 1998-99 aid amount (\$32.9 million), MPS' entitlement is set equal to the 1998-99 aid amount. This hold harmless will no longer apply in the year after the last principal and interest payments are made on the bonds issued pursuant to Act 9. The last debt service payment is scheduled to be made in 2023-24.

Under the interdistrict transfer program, the state provides financial support to both the district which accepts the transfers (the receiving district) and the district from which the transfers came (the sending district). The receiving district is paid an amount equal to its average net cost per pupil for each transfer accepted. Net cost per pupil is calculated by dividing the sum of the district's shared costs and interdistrict aid received in the prior year by the sum of the district's aid membership and the number of transfer pupils in the prior year.

The sending school district counts pupils transferred to another district as 0.75 pupil for revenue limit and general aid purposes, which is commonly referred to as sender aid. A separate integration aid payment is not calculated for sending districts. Instead, the district receives these funds through the equalization aid formula.

Transportation for an interdistrict transfer pupil is provided pursuant to an agreement between the sending district and the receiving district. Statutes specify that if either the sending district or the receiving district operates an intradistrict transfer program, that district shall be responsible for the cost of transportation. Effectively, this provision requires MPS to provide transportation for pupils in the interdistrict transfer program. MPS may meet this responsibility either by contracting directly for provision of transportation or by reimbursing another district for the cost of such a contract.

Under the open enrollment program, a pupil may attend a public school outside his or her school district of residence, provided the pupil's parent complies with certain application dates and procedures and the applicable acceptance criteria are met. The resident district counts a pupil transferring to another district under open enrollment in its pupil membership for revenue limit and general aid purposes. A statutorily-specified amount of state aid (\$6,635 in 2014-15) is then transferred from the resident district to the nonresident district for each open enrollment pupil. A district's general aid is increased or decreased by an amount equal to the per pupil transfer amount multiplied by the district's net gain or loss of pupils under open enrollment.

State aid adjustments are not considered in determining a district's revenue limit. In other words, the positive aid transfer that a district with a net gain of pupils under open enrollment receives is outside of its revenue limit. A district with a net loss of pupils cannot increase its property tax levy to cover the negative aid transfer.

Under open enrollment, the pupil's parent is generally responsible for transporting the pupil to and from school. Parents of pupils who are eligible for a free or reduced-price lunch may apply to DPI for reimbursement of transportation costs, which may not exceed the parent's actual costs or three times the statewide average per pupil transportation costs, whichever is less.

If the amount of funding appropriated in a given year is insufficient to pay the full amount of approved claims in that year, payments are prorated. A total of \$434,200 from the general fund was provided in 2013-14 for these payments, which were prorated at 27.1% of approved claims.

GOVERNOR

Prohibit any pupils from participating in the Chapter 220 program unless those pupils were participating in the program in the 2014-15 school year.

Specifically, beginning on the effective date of the bill, prohibit a school board from entering into a written agreement with another school board under the interdistrict transfer program, except to enter into an annual written agreement with another board on behalf of a pupil that attended a public school under a written agreement in the 2014-15 school year. Prohibit a school board from allowing a pupil to attend a school under the intradistrict transfer program unless the pupil attended a school under the program in the 2014-15 school year. Specify that pupil transfers that qualify for aid under a plan implemented by a school board to reduce racial imbalance in a school district or attendance area and part-time pupil transfers would be permitted only for pupils attending under the plan in the 2014-15 school year. Specify that a school district would only receive integration aid for pupils who attended a public school in the school district under an eligible transfer agreement or plan in the 2014-15 school year.

DISCUSSION POINTS

1. During the late 1970's and 1980's, the issue of integration in Wisconsin's public schools was addressed by the federal court system and the Legislature. A class action suit brought against the MPS Board in 1965 charged that the system was unconstitutionally segregated. In 1976, the U.S. District Court for the Eastern District of Wisconsin ruled in favor of the plaintiffs and ordered that a desegregation plan be developed. The District Court subsequently found that the Board had been administering the school system with segregative intent. A 1979 settlement agreement that remained in effect until 1984 required MPS to ensure that a certain proportion of pupils be enrolled in racially-balanced schools.

2. The integration aid program was enacted by Chapter 220, Laws of 1975, and first went into effect in the 1976-77 school year. Chapter 220 was considered by many to be landmark legislation because it represented a major effort by a state government to encourage integration in its public schools. The stated purpose of Chapter 220 is "to facilitate the transfer of students between schools and school districts to promote cultural and racial integration in education where students and their parents desire such transfer and where schools and school districts determine such transfers serve educational interests." While passage of Chapter 220 was closely associated with the situation in the Milwaukee area, the program did not preclude other districts from participating in the program provided they meet the statutory eligibility criteria.

3. In 1984, the MPS Board filed a lawsuit against 24 suburban Milwaukee school districts and the state, requesting that the public schools in the Milwaukee metropolitan area be declared

unconstitutionally segregated and that the development and implementation of a desegregation plan be ordered. In 1987, a settlement agreement was reached to resolve the lawsuit, part of which involved an agreement among the MPS Board and 23 suburban districts to make a good faith effort to fill a specified number or percentage of seats with Chapter 220 minority transfers. The agreement ultimately expired in 1995. Since then, the MPS Board has entered into individual transfer agreements with the participating suburban districts.

4. Initially, state funding for integration aid was provided through a separate, sum sufficient appropriation. However, Chapter 34, Laws of 1979, deleted the sum sufficient appropriation and provided that funding for the program be distributed from the general school aids appropriation. During the program's history, integration aid payments grew from \$8.3 million in 1976-77 to a high of \$84.8 million in 2006-07. Payments in 2014-15 are estimated to be \$59.8 million.

5. Attachment 1 summarizes 10 years of state aid payments and pupil transfers under the Chapter 220 program. The data shown in Attachment 1 are from the October 15 general school aid distributions prepared by the Department of Public Instruction for the indicated year. Not included in these amounts are the equalization aid payments that school districts receive for pupils sent to other districts under the interdistrict transfer program, since separate sender aid payments are not made by the state. The aid amounts shown include aid reductions made for the parental choice programs and the independent "2r" charter school program under the statutory provisions that applied in the particular year.

6. Attachment 2 provides a breakdown by school district of interdistrict transfers, total aid payments, and aid payments per transfer for the last three years. Sixteen school districts in Milwaukee County and six districts outside Milwaukee County currently receive interdistrict aid. Attachment 2 shows that while estimated payments per transfer averaged \$10,590 in 2014-15, they ranged from a low of \$8,487 (Milwaukee) to a high of \$16,195 (Nicolet UHS). Nine of the districts are marked with an asterisk in Attachment 2, meaning they had a minority pupil enrollment greater than 30% of their overall enrollment in 2013-14 and thus exceed the threshold for accepting new transfers under the interdistrict program. (Glendale-River Hills, a suburban district that had previously received interdistrict aid, also exceeds this threshold.)

7. As noted previously, sending districts do not receive separate sender aid payments. The primary beneficiary of the sender aid provision is Milwaukee. In the 2013-14 school year (for aid paid in 2014-15), 88% of the 1,881 interdistrict transfer pupils shown in Attachment 2 were MPS residents. The 1,655 pupils who transferred from MPS to the suburban school districts represent 2.0% of Milwaukee's 2013-14 membership.

8. Attachment 3 displays pupil transfers, total aid payments, and aid payments per transfer for the last three years for the school districts participating in the intradistrict component of Chapter 220. Estimated payments per transfer for the four districts averaged \$1,480 in 2014-15, with per pupil payments ranging from a low of \$486 (Madison) to a high of \$1,566 (Racine).

9. Under the bill, the Chapter 220 program would be phased out over a number of years, as pupils participating in the program graduate or leave the program to pursue other educational

opportunities. It is possible that a four-year-old kindergarten pupil participating in the program in the 2014-15 school year could continue in the program until 2027-28.

10. Proponents of ending the Chapter 220 program have pointed out that a number of other educational options have been developed since the start of that program, most notably the open enrollment program. Under open enrollment in 2013-14, 5,474 full-time equivalent (FTE) pupils transferred from MPS to suburban districts that received interdistrict aid for transfers in that year, while 586 FTE pupils transferred from those suburban districts to MPS. With participation in open enrollment exceeding participation in Chapter 220, the importance of Chapter 220 is arguably reduced.

11. With respect to open enrollment, critics of ending the Chapter 220 program note that transportation is a critical difference between the two programs, given the high concentration of poverty in Milwaukee. Transportation is provided for Chapter 220 pupils, while transportation in the open enrollment program is generally the responsibility of parents, with some funding provided to reimburse costs for low-income families.

12. Another difference between the interdistrict transfer program and the open enrollment program is the funding structure. Because interdistrict aid to a receiving district is a general aid, it is under a district's revenue limit and thus serves to reduce the district's levy. The aid transfer to a nonresident district under open enrollment is outside of the district's revenue limit, thus providing the district with an additional financial resource. As a result, it has been argued that the funding structure of the open enrollment program has made it a more attractive option for school boards in comparison to the interdistrict transfer program.

13. In addition to open enrollment, proponents of ending Chapter 220 have noted the existence of other educational options, including private school choice programs and the independent "2r" charter school program. These programs have historically been provided primarily for children in Milwaukee, but also for other areas of the state as the programs have expanded.

14. Critics of ending the Chapter 220 program have noted that it was the first parental choice program in the state, and that ending the program means reducing educational options for families. Critics also argue that ending the program would end any explicit state commitment to goal of integration in education.

15. The Budget in Brief indicates that elimination of the Chapter 220 program would direct additional aid to districts statewide through the equalization formula. Under the bill, no reduction in general aid funding is made related to the phase-out of Chapter 220. Because integration aid is funded as a first draw, any reduction in integration aid entitlements under the bill would result in more funding being made available for distribution under the equalization formula. Because the program would be phased out over a number of years, the redistribution of funding would happen gradually. This redistribution is currently occurring to some extent, given that participation in the Chapter 220 program is declining under current law. The MPS hold harmless provision, which is unchanged under the bill, would also reduce the amount of any aid redistribution in the short term.

16. In addition to the reduction in integration aid entitlements, the redistribution of aid would also be affected by the decision of parents as to where to educate pupils who would have participated in the interdistrict transfer program under current law who would no longer have that option under the bill. These pupils would have the option of enrolling in their resident districts, either to attend a school located in the district or to attend another district under the open enrollment program, or to pursue other educational opportunities, such as private schools or home schooling, that would not involve enrolling in their home district.

17. Under current law, a pupil that transfers to another district under the interdistrict transfer program is counted by the sending district as 0.75 member. Under the bill, if new students were unable to participate in the program, the resident district would be able to count these pupils as 1.0 member if they enrolled in the district, an increase of 0.25 pupil compared to current law. If the pupils would not enroll in the district of residence, they would not be counted in the resident district's membership, a decrease of 0.75 member compared to current law.

18. Once the changes in pupils and shared costs would be fully incorporated in the aid factors for the resident districts for general school aids purposes, there would be aid shifts. The longer-term aid effects of the phase-out of the Chapter 220 program under the bill can be illustrated by scenarios under which the program had been hypothetically eliminated for the 2014-15 aid year and all or none of the interdistrict transfer pupils were enrolled in their district of residence, as if the changes in the pupils and costs were fully phased-in for purposes of revenue limits and general school aids for that year.

19. Regardless of whether interdistrict pupils enrolled in their resident district or not, all or almost all of the suburban Milwaukee school districts participating in the Chapter 220 program would have lost general aid under the scenarios compared to current law, had they applied in 2014-15. These districts would have lost their interdistrict aid payments. Because this aid is treated as a deductible receipt that offsets shared costs, the loss of aid would have resulted in a corresponding increase in districts' shared costs, which would have resulted in even less aid for the suburban districts with above-average property values per pupil. While the aid loss for these districts would have been mitigated by the resident pupils enrolling in the district, the additional pupils would not have drawn enough additional aid to the districts to completely offset the other factors.

20. Because a relatively large number of Milwaukee pupils attend nonresident districts under the interdistrict transfer program, the enrollment status of those pupils under the scenarios would have an impact on MPS aid. If the interdistrict transfer pupils would have otherwise enrolled in MPS, the District would have gained aid relative to current law. Because MPS has below-average property value per pupil, the District would have received additional aid from both the increase in shared costs from the additional pupils and from the loss of the Chapter 220 aid offset against shared costs. Conversely, if the interdistrict transfer pupils would not have enrolled in their resident district, MPS would have lost aid relative to current law. MPS' intradistrict aid entitlement would also have declined, but that reduction would have been limited by the hold harmless from the neighborhood school initiative.

21. Most of the districts in the state that do not currently participate in Chapter 220 would have gained aid under the scenarios under which the program had been eliminated. Under the

formula, any aid losses for MPS and the suburban Milwaukee districts would have resulted in changes in the formula factors to distribute that funding, resulting in more aid for most districts. General aid for some districts with relatively high property values per pupil would not have been significantly affected by the changes.

22. Two of the three other districts that participate in the intradistrict transfer program (Madison and Wausau) receive relatively small intradistrict aid payments. As a result, any aid effects related to the hypothetical elimination of the intradistrict program would have been relatively minor, and these districts would have been subject to the same aid effects as described above for the other districts in the state. For the Racine Unified School District (RUSD), the other aid effects would not have offset the loss of the District's relatively larger intradistrict payment, resulting in a loss of aid for that district under the scenarios.

23. For the districts that do not participate in the interdistrict transfer program, an increase in aid would have resulted in a corresponding decrease to the levy under revenue limits. The RUSD Board would have had the option of offsetting any decrease in aid by increasing the local levy. For districts that participate in the interdistrict transfer program, the effect on the local levy would have depended on the relative changes to the district's revenue limit and general aid.

24. Additional aid effects would occur if pupils would attend nonresident districts through the open enrollment program if they were unable to do so through the interdistrict transfer program. It is unknown how many pupils would use this option, given the different statutory criteria for the two programs.

25. To the extent that families use open enrollment, the resident district would be able to count each pupil as 1.0 member for revenue limits and general aid, and the nonresident district would receive the open enrollment transfer amount from the resident district's general aid for each pupil attending in the nonresident district. If all interdistrict pupils would have enrolled in their resident districts to transfer under open enrollment under the scenarios described above, the aid transfer from MPS to the suburbs would have exceeded any possible aid increase for MPS from being able to count a larger proportion of pupils.

26. Under the bill, a school board may continue to enter into an annual written agreement with another school board on behalf of a pupil that attended a public school under an agreement in the 2014–15 school year, and a district would only receive integration aid for pupils who attended a public school in the school district under an eligible transfer agreement or plan in the 2014–15 school year.

27. Two of the districts with pupils currently participating in the Chapter 220 program are K-8 districts (Fox Point J2 and Maple Dale-Indian Hill) and one is a union high school district (Nicolet UHS). Under the bill, elementary pupils in K-12 districts participating in the Chapter 220 program would not be precluded from continuing their education in the same district through high school, because it would be the same district they are currently attending under a written agreement. Elementary pupils currently in one of the K-8 districts cannot, by definition, attend high school in the same district they are currently attending. The Committee could modify the bill to specify that a pupil currently attending a K-8 district under a written agreement would be eligible to attend the

associated UHS district as well (Alternative 2).

28. Under the bill, pupils would not be able to participate in the Chapter 220 program unless they were participating in the 2014-15 school year. This provision would become effective on the general effective date of the budget bill. The application procedures for attendance in the 2015-16 school year, however, would have still occurred in early 2015 under current law under which pupils transfers were not limited. To allow pupils who have already applied to attend school through Chapter 220 under current law to still attend under the bill, the Committee could choose to delay the beginning of the phase-out to pupils who participated in the program in the 2015-16 school year (Alternative 3).

ALTERNATIVES

1. Approve the Governor's recommendation to prohibit any pupils from participating in the Chapter 220 program unless those pupils were participating in the program in the 2014-15 school year.

2. Modify the Governor's recommendation to specify that a pupil currently attending a K-8 district under the Chapter 220 program would be allowed to continue to attend the associated UHS district under the program.

3. Modify the Governor's recommendation to prohibit any pupils from participating in the Chapter 220 program unless those pupils were participating in the program in the 2015-16 school year.

4. Delete provision.

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Attachments

ATTACHMENT 1

Integration Aid Payments

Fiscal Year	Intradistrict Transfer Aid				Interdistrict Transfer Aid				Total Integration Aid	Percent Change
	Pupils	Percent Change	Aid Amount	Percent Change	Pupils	Percent Change	Aid Amount	Percent Change		
2005-06	33,172	6.5%	\$48,849,500	10.0%	3,794	-8.6%	\$35,372,400	-4.9%	\$84,221,900	3.2%
2006-07	33,576	1.2	50,524,700	3.4	3,457	-8.9	34,225,300	-3.2	84,750,000	0.6
2007-08	31,580	-5.9	46,871,500	-7.2	3,251	-6.0	31,774,200	-7.2	78,645,700	-7.2
2008-09	31,200	-1.2	46,781,300	-0.2	3,111	-4.3	31,677,900	-0.3	78,459,200	-0.2
2009-10	30,416	-2.5	45,737,300	-2.2	2,905	-6.6	30,712,300	-3.0	76,449,600	-2.6
2010-11	29,096	-4.3	44,442,700	-2.8	2,756	-5.1	29,463,200	-4.1	73,905,900	-3.3
2011-12	28,504	-2.0	39,470,800	-11.2	2,632	-4.5	28,657,700	-2.7	68,128,500	-7.8
2012-13	27,652	-3.0	38,941,000	-1.3	2,348	-10.8	24,267,800	-15.3	63,208,800	-7.2
2013-14	28,504	3.1	41,250,600	5.9	2,085	-11.2	21,627,200	-10.9	62,877,800	-0.5
2014-15	26,940	-5.5	39,869,700	-3.3	1,881	-9.8	19,921,100	-7.9	59,790,800	-4.9

ATTACHMENT 2

Interdistrict Transfer Payments

	2012-13			2013-14			2014-15		
	Pupil Transfers	Aid Payment	Aid Per Transfer	Pupil Transfers	Aid Payment	Aid Per Transfer	Pupil Transfers	Aid Payment	Aid Per Transfer
Brown Deer *	7.00	\$85,262	\$12,180	2.00	\$24,344	\$12,172	0.00	\$0	\$0
Cudahy *	17.00	173,003	10,177	13.00	141,544	10,888	12.00	121,921	10,160
Elmbrook	248.49	2,833,479	11,403	217.21	2,453,775	11,297	182.31	2,054,360	11,268
Fox Point J2	97.55	1,199,654	12,298	87.80	1,125,532	12,819	93.14	1,174,480	12,610
Franklin Public	102.05	1,070,583	10,491	87.13	902,929	10,363	72.00	849,266	11,795
Germantown	23.00	229,311	9,970	20.00	195,380	9,769	26.00	256,532	9,867
Greendale	53.00	559,914	10,564	57.48	607,810	10,574	72.94	770,924	10,569
Greenfield *	94.23	989,611	10,502	62.49	639,870	10,240	62.95	655,463	10,412
Hamilton	112.29	1,123,334	10,004	116.87	1,164,871	9,967	111.55	1,149,601	10,306
Maple Dale-Indian Hill*	23.90	359,110	15,026	23.88	364,409	15,260	20.66	312,018	15,103
Menomonee Falls	193.16	2,214,446	11,464	169.30	1,868,310	11,035	139.33	1,525,026	10,945
Mequon-Thiensville	88.00	932,711	10,599	81.50	872,423	10,705	85.00	932,484	10,970
Milwaukee	325.50	2,729,329	8,385	262.10	2,240,364	8,548	226.40	1,921,514	8,487
New Berlin	20.00	206,023	10,301	16.51	171,357	10,379	11.39	125,016	10,976
Nicolet UHS *	56.23	897,822	15,967	49.61	772,631	15,574	39.54	640,352	16,195
Oak Creek-Franklin	109.50	962,753	8,792	116.00	1,067,750	9,205	121.50	1,147,278	9,443
Saint Francis *	52.83	537,009	10,165	49.13	510,186	10,384	35.88	371,204	10,346
Shorewood *	149.06	1,665,115	11,171	151.91	1,720,156	11,324	139.21	1,607,827	11,550
South Milwaukee	58.66	593,784	10,122	38.06	391,090	10,276	28.93	296,082	10,234
Wauwatosa *	206.44	1,723,971	8,351	164.36	1,429,613	8,698	124.56	1,163,460	9,341
West Allis *	54.50	495,261	9,087	46.71	438,607	9,390	29.39	297,352	10,117
Whitefish Bay	216.28	2,184,437	10,100	212.26	2,116,208	9,970	206.21	2,140,428	10,380
Whitnall	<u>39.38</u>	<u>501,856</u>	<u>12,744</u>	<u>39.96</u>	<u>408,078</u>	<u>10,212</u>	<u>40.16</u>	<u>408,463</u>	<u>10,171</u>
Total	2,348.05	\$24,267,778	\$10,335	2,085.27	\$21,627,237	\$10,371	1,881.05	\$19,921,051	\$10,590

* Minority pupil enrollment exceeded 30% of overall pupil enrollment in the 2013-14 school year.

ATTACHMENT 3

Intradistrict Transfer Payments

	2012-13			2013-14			2014-15		
	Pupil Transfers	Aid Payment	Aid Per Transfer	Pupil Transfers	Aid Payment	Aid Per Transfer	Pupil Transfers	Aid Payment	Aid Per Transfer
Madison	964	\$513,370	\$533	948	\$447,114	\$472	1,036	\$503,792	\$486
Milwaukee	21,552	31,449,024	1,459	20,876	31,282,479	1,498	20,124	30,325,821	1,507
Racine	4,964	6,733,378	1,356	6,496	9,253,326	1,424	5,620	8,802,059	1,566
Wausau	<u>172</u>	<u>245,245</u>	1,426	<u>184</u>	<u>267,695</u>	1,455	<u>160</u>	<u>238,026</u>	1,488
Total	27,652	\$38,941,017	\$1,408	28,504	\$41,250,614	\$1,447	26,940	\$39,869,698	\$1,480