



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #609

### **Four-Year-Old Kindergarten Grants (DPI -- Categorical Aids)**

[LFB 2005-07 Budget Summary: Page 403, #10]

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#### **CURRENT LAW**

Under revenue limits, the annual increase in a school district's per pupil revenue derived from general school aids, computer aid, and property taxes is restricted. Actual general aids, computer aid, and property tax revenues received in the prior school year are used to establish the base year amount in order to compute the allowable revenue increase for the current school year. A per pupil revenue limit increase, which is adjusted annually for inflation, is added to the base revenue per pupil for the current school year. In 2004-05, this per pupil increase is \$241.01. There are several adjustments that are made to the standard revenue limit calculation, such as the declining enrollment adjustment, carryover of unused revenue authority, and the transfer of service adjustment. These adjustments generally increase a district's limit, providing the district with more revenue authority within the calculated limit. A school district can also exceed its revenue limit by receiving voter approval at a referendum.

A three-year rolling average of a school district's pupil enrollment is used to determine the allowable revenue increase under the limit. Specifically, the number of pupils is based on the average of a school district's membership count taken on the third Friday in September for the current and two preceding school years. For example, for 2004-05 revenue limits, the average of the 2001, 2002, and 2003 September memberships was used to calculate the 2003-04 base year revenues per pupil. Then, the average of the 2002, 2003 and 2004 September memberships was used to determine the allowable revenue increase in 2004-05. School districts can also count 40% of the full-time equivalent (FTE) summer school enrollment in classes taught by licensed teachers in the membership counts in each year of the three-year average.

Under the current school finance system, there is no separate appropriation to provide funds for four-year-old kindergarten (K4) programming. School districts count K4 pupils in their membership for revenue limit and general school aids purposes, with state K4 funding

provided through the general school aids appropriations (\$4.318 billion in 2004-05). A four-year-old kindergarten pupil is counted as 0.5 member if the pupil attends for at least 437 hours, unless the program provides at least 87.5 additional hours of outreach activities, in which case the pupil is counted as 0.6 member.

## **GOVERNOR**

Provide \$3,000,000 GPR in 2006-07 and create a categorical aid appropriation for grants to school districts to implement a K4 program. Authorize school boards to apply to DPI for up to two annual grants. For the initial grant, require DPI to pay each eligible district up to \$3,000 for each K4 pupil enrolled in the district. For the second grant, require DPI to pay each eligible district up to \$1,500 for each K4 pupil enrolled in the district. Require DPI to give preference in awarding grants to districts that use community approaches to early education, as defined in administrative rule. Require DPI to prorate payments if funding in the appropriation is insufficient to pay all school districts, and to promulgate rules to implement the grant program. Specify that these provisions would take effect on July 1, 2006.

## **DISCUSSION POINTS**

1. If a school district chooses to implement a new K4 program, it would receive full revenue limit authority for the pupils enrolled in the program only in the third year of the program. Under the three-year rolling average of pupil enrollment used under revenue limits, the district would receive one-third of the revenue limit authority for those pupils in the first year of the program's operation. In the second year of the K4 program, the district would have revenue limit authority for two-thirds of the pupils in the new program. Only in the third year of the program, when the pupils in the K4 program are counted in each year of the three-year rolling average, would the district have full revenue limit authority for the pupils.

2. As an example of the effects of the three-year rolling average, a district is used that has the statewide average per pupil revenue, prior to adjustments, of \$8,391 in 2004-05. Based on the current law per pupil adjustment under revenue limits, this district would receive \$4,196 in revenue limit authority for a fully phased-in K4 pupil in a program with no additional outreach provided, which is counted as 0.5 pupil. Under the three-year rolling average, this district would have received one-third of that authority, or \$1,399, for that K4 pupil if a new K4 program had been implemented in 2004-05. In the second year, after consideration of the per pupil adjustment, the district would have revenue limit authority for \$2,880 for a K4 pupil in the second year of the program. In the third year, after consideration of the per pupil adjustment, the district would have full revenue limit authority of \$4,446 for a K4 pupil.

3. The Governor's proposal would provide categorical aid to school districts to cover the approximate portion of revenue limit authority for a K4 pupil that would not be realized by the school district in the first two years of the K4 program under the three-year rolling average. Categorical aid is provided outside of revenue limits, representing an additional financial resource for districts. Under this bill provision, a district starting a K4 program would receive the equivalent

revenue for the K4 pupils from a combination of revenue limits and categorical aid. In this first year, the district would get one-third of the revenue from revenue limits and two-thirds from categorical aid. In the second year, the district would get two-thirds of the revenue from revenue limits and one-third from categorical aid. In the third year, all of the revenue would be from revenue limits.

4. Under the Governor's proposal, enough categorical aid funding would be provided in 2006-07 to fully fund some combination of districts offering K4 programming for up to 1,000 pupils. On an ongoing basis, the amount proposed would fully fund fewer students in new K4 programs each year, so as to provide the initial grants for new programs in the current year and the second grants for programs that started in the prior year. If the funding for which districts are eligible in any year under the program would exceed the amount appropriated, DPI would be authorized to prorate the payments.

5. The Governor's Task Force on Educational Excellence recommended this provision in its final report. The report noted that a grant program would be a way to help school districts attempting to implement K4 programs, noting that several districts around the state have expressed an interest in starting K4 programs, but have chosen not to do so because it takes three years to get full funding for the program under revenue limits.

6. It has been noted by some proponents of the proposed grant program that funding of K4 programs under the Milwaukee parental choice program and the Milwaukee and Racine charter program differs from funding of K4 programs for public K-12 schools. Because funding under the choice and charter programs is provided on a current year basis, these schools would receive full funding for a new K4 program in the first year of its operation. The proposed grant program then would treat public schools more similarly to choice and charter schools in this respect within the framework of revenue limits.

7. The proposed grant program would also address another recommendation by the Task Force on the use of collaborative approaches to early child care and education. While the definition of "community approaches" for the program would be determined by DPI in administrative rule, the Task Force report notes that these approaches integrate the efforts and funding sources for multiple types of early care providers so that more children can be served and so that the overall quality of each provider can be enhanced.

8. The following table shows the K4 pupil headcount and membership and the number of school districts in the state that provided K4 programming over the last four school years. The 2004-05 data in the table is preliminary and could change based on further auditing by DPI.

## Four-Year-Old Kindergarten Participation

|                   | <u>Headcount</u> | <u>Membership</u> | <u>Number of Districts<br/>with K4 Programs</u> |
|-------------------|------------------|-------------------|---|
| 2001-02           | 14,483           | 8,270             | 166   |
| 2002-03           | 16,051           | 9,260             | 180   |
| 2003-04           | 16,957           | 9,849             | 189   |
| 2004-05           | 18,652           | 10,854            | 208   |
| Cumulative Change |                  |                   |   |
| Amount            | 4,169            | 2,584             | 42  |
| Percent           | 28.8%            | 31.2%             | 25.3%   |

9. As shown in the table, the headcount of pupils in K4 programs has increased 29% over the last four years, and the number of districts offering K4 programming has increased by 25% over that same time period. Based on this recent experience, one could argue that, in spite of the revenue limit implications involved in starting a K4 program, districts have shown a willingness to begin such programs.

10. In considering whether to create a categorical aid appropriation for this purpose, there may be other options available to school districts interested in starting a K4 program, besides providing new state aid funding for this purpose. Given the relatively short two-year time frame in which the district would not have full funding for the pupils, districts could make use of fund balances, if available, for implementation costs. School districts could also propose a nonrecurring referendum for two years in the amount needed by the district for implementation costs. Pursuing a referendum would also ensure that there is local support for starting a K4 program in the district.

### ALTERNATIVES

1. Approve the Governor's recommendation to provide \$3,000,000 in 2006-07 and create a categorical aid appropriation for grants to school districts to implement a K4 program.
2. Delete the provision.

|   |                   |
|---|-------------------|
| <b><u>Alternative 2</u></b>             | <b><u>GPR</u></b> |
| <b>2005-07 FUNDING</b> (Change to Bill) | - \$3,000,000     |

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