



## Legislative Fiscal Bureau

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May 15, 2007

Joint Committee on Finance

Paper #650

### **Milwaukee Parental Choice Program Funding Split (DPI -- Choice and Charter)**

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 471, #2]

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#### **CURRENT LAW**

Under the Milwaukee parental choice program, the state pays a statutorily-determined per pupil amount for children from low-income families to attend, at no charge, participating private schools in the City of Milwaukee. The choice program is funded from a sum sufficient appropriation from the general fund established for that purpose. The estimated cost of the payments from the choice program appropriation is partially offset by a reduction from the general school aids for which the Milwaukee Public Schools (MPS) is eligible by an amount equal to 45% of the estimated total cost of the choice program. Under revenue limits, MPS may levy property taxes to make up for the amount of aid lost due to this reduction. As a result, the general fund pays for 55% of the choice program appropriation and MPS for 45%. Pupils attending choice schools are not counted by MPS in its membership for revenue limit or general school aid purposes. Other than MPS, all school districts' aid payments and property tax levies are not affected by the choice program funding structure.

#### **GOVERNOR**

Modify the current law funding split for the choice program, beginning with the 2007-08 school year. Specify that, for the first 15,000 pupils attending a school in the program, the current law 55% state/45% MPS split would apply. For all pupils above 15,000 attending a school in the program, the state would fund 100% of the cost of choice payments.

Based on the estimated per pupil payments under the bill (\$6,610 in 2007-08 and \$6,716 in 2008-09) and the administration's estimate of participation in the program (18,000 in 2007-08 and 19,000 in 2008-09), this change would lower the MPS aid reduction and the MPS choice levy by \$8,923,500 in 2007-08 and \$12,088,800 in 2008-09 compared to current law. Net state general fund expenditures related to the choice program would increase by those amounts in each year.

## **DISCUSSION POINTS**

1. A number of changes have been made to the funding of the choice program since its inception. From 1990-91 to 1998-99, the program was funded by generally allowing MPS to count choice pupils in its membership and making a reduction to MPS' general aid to offset the cost of the program.

2. Under the 1999-01 budget, MPS was no longer able to count choice pupils in its membership. The incidence of the aid reduction was also changed. The general school aids for which MPS was eligible were reduced by half the cost of the program, while the general school aids for which all other school districts were eligible to be paid were reduced proportionately by an amount totaling the other half. A school district's revenue limit calculation was not affected by the choice reduction. Thus, a school district could increase its property tax levy to offset any aid reduction made related to the choice program.

3. The current law funding arrangement for the program was enacted in the 2001-03 budget. The 45% MPS share of choice program costs was comparable to the net reduction incurred by MPS under prior law after consideration of the various interactions between the school levy and partial school revenues under prior law governing two-thirds funding. By funding the 55% share, the state assumed the net costs that had been borne by other school districts under the prior law arrangement.

4. Concerns have been raised about the impact of the choice levy on Milwaukee property taxpayers. The total MPS levy for 2006-07 is \$244.4 million, of which the choice levy is \$49.7 million. Thus, the choice levy represents 20% of the overall MPS levy for that year.

5. The disparity between the MPS and choice levies per pupil has also been raised as an issue. With an estimated 17,000 choice pupils in 2006-07, the \$49.7 million choice levy for 2006-07 is approximately \$2,925 per pupil. Excluding the choice levy and the \$9.3 million community service levy, the remainder of the MPS levy is \$185.4 million. With a current year three-year average enrollment of 94,871 under revenue limits, the MPS levy is approximately \$1,954 per pupil. Thus, for 2006-07, the choice levy per pupil is \$971 higher than the MPS levy per pupil.

6. Administration officials indicate that the bill provision modifying choice funding is related to legislative action last session to increase the limit on the number of pupils that could participate in the choice program. Under prior law, that limit was equal to 15% of MPS

membership, which was approximately 15,000 pupils in 2005-06 (the last year in which the 15% limit was effective). Under 2005 Act 125, the limit was increased to 22,500 full-time equivalent pupils. Staff from the Department of Administration indicate that the bill provision is intended as a hold harmless for MPS, so that the increase in pupil participation under the higher cap does not increase the MPS choice levy.

7. Under the bill, in 2007-08, the estimated state share of choice program costs would be 62.5% and the estimated MPS share would be 37.5%. In 2008-09, the estimated state share would be 64.5% and the estimated MPS share would be 35.5%. With the current 22,500 pupil limit on the choice program, the maximum choice split would be 70% state and 30% MPS.

8. Another method for modifying the choice funding split so as to reduce the MPS choice levy would be to change the state and MPS funding percentages for the entire program. Those concerned with the relative size of the choice levy have cited the disparity between the MPS levy per pupil and the choice levy per pupil. If the choice funding split had been set at 70% state/30% MPS in 2006-07, the MPS and the choice levy per pupil would have been basically equal. Thus, one alternative would be to modify the current law split so that the state pays 70% of the cost of the program, with MPS paying the other 30%.

9. Further, given that the 70% state/30% MPS split represents the maximum split under the current law choice pupil participation limit and the provisions of SB 40, it could be argued that this split should be applied to all pupils in the program. Since there is no difference in education programming for the first 15,000 students as opposed to those students over 15,000, one could argue that all students should be funded the same as well.

10. Compared to the bill, the 70% state/30% MPS split would reduce the MPS aid reduction and the MPS choice levy by an additional \$8,923,500 in 2007-08 and \$7,051,800 in 2008-09. This would result in increased net GPR costs for the choice program equal to those amounts in those years.

11. Another option for modifying the split was submitted by the State Superintendent in the Department of Public Instruction (DPI) agency budget request. DPI recommended that the choice funding split be set at 75% state/25% MPS. Using the most recent data available at the time of the agency budget request, state equalization aid supported 75% of MPS' shared costs. Under this alternative, the state would support roughly the same percent of choice costs as it does MPS shared costs. However, in dollar terms, MPS taxpayers would have paid approximately \$1,625 per choice pupil, compared to \$1,954 per MPS pupil, had this split applied in 2006-07.

12. Compared to the bill, the 75% state/25% MPS split would reduce the MPS aid reduction and MPS choice levy by an additional \$14,872,500 in 2007-08 and \$13,432,000 in 2008-09. This would result in increased net GPR costs for the choice program equal to those amounts in those years.

13. For either a 70% state/30% MPS or 75% state/25% MPS alternative, the net GPR

costs in the 2007-09 biennium could be reduced by phasing in the higher state percentage. As an example, a five-year phase-in could be used for either alternative, where the state's share would increase by three percentage points, or four percentage points, per year until the final ratio is attained.

14. The Governor's recommendation and other alternatives to increase the state share of the choice program require an increased contribution from the general fund to reduce the MPS choice levy. If the Committee does not want to use additional general fund dollars for this purpose, another alternative for reducing the MPS choice levy would be to maintain the current 55% state/45% MPS split, but allow MPS to count some portion of choice enrollment in the MPS pupil membership used to calculate general school aids.

15. If MPS' membership were increased by including choice pupils, MPS' property value per member and shared cost per member would be reduced, meaning more equalization aid would be necessary to fund the state's guaranteed tax base for MPS. Under revenue limits, increased aid to MPS would reduce the MPS levy. To the extent more equalization aid would be paid to MPS, however, less equalization aid would be distributed to most other districts in the state.

16. By counting the pupils for general school aids purposes only, it would affect only the amount of general aid received by MPS, which in turn would affect the MPS levy. Because the pupils would not be counted for revenue limit purposes, MPS would not receive any additional revenue authority related to these pupils.

17. Because the MPS choice lapse is equal to 45% of the estimated cost of the choice program, some have suggested that MPS be able to count 45% of choice pupils in the MPS membership for general school aids. Had this alternative been in effect for the 2006-07 general aid distribution, MPS membership would have been increased by 6,572 (45% of the choice membership of 14,604 in the prior school year). As a result, MPS general aid would have increased by \$19.5 million. As a result of changes to the formula factors, 10 other districts would have increased aid totaling nearly \$200,000, while aid to 356 districts would have decreased, in total, by \$19.7 million. Aid to 58 districts would have been unchanged.

Because this alternative would not modify the 55% state/45% MPS funding split, compared to the bill, the MPS general school aids reduction and choice levy would increase by \$8,923,500 in 2007-08 and \$12,088,800 in 2008-09 compared to the bill. This would result in decreased net GPR costs for the choice program equal to those amounts in those years. However, because MPS would be able to count 45% of choice pupils, MPS would receive additional general school aids to help offset the choice levy. It is not possible to estimate the amount of additional general aid MPS would receive in 2007-08 and 2008-09, because the membership, equalized value, and shared costs for all the school districts in the state are not known at this time.

18. The Governor's recommendation and other alternatives to modify the choice funding split to reduce the MPS levy require additional general fund dollars. Allowing MPS to count some portion of choice pupils would also reduce the MPS levy, but the funding would be taken from most

other school districts in the state. If the Committee does not wish to use either approach, the current law funding mechanism for the choice program could be maintained.

19. The fiscal effects shown for all of the alternatives are based on the level of general school aids funding provided in the bill. The maximum per pupil payment under the choice program is adjusted by the percent change, if non-negative, in the general school aids appropriation from the previous to the current year. If the Committee chooses to provide a different funding level for general school aids than the Governor, the MPS aid reductions and net GPR costs for the alternatives would need to be adjusted as well.

**ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to modify the current law funding split for the choice program, beginning with the 2007-08 school year, to specify that for the first 15,000 choice pupils, the 55% state/45% MPS split would apply, but that for all pupils above 15,000, the state would fund 100% of the cost of choice payments.

<b>ALT 1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>0</u>	<u>- 21,012,300</u>
Net GPR	\$0	\$21,012,300

2. *70% State/30% MPS Funding Split.* Delete provision, and instead specify that the choice funding split be:

(a) *Effective Immediately.* 70% state/30% MPS, beginning in 2007-08. As a result, the MPS general school aids reduction would decrease by \$8,923,500 in 2007-08 and \$7,051,800 in 2008-09. This would result in increased net GPR costs for the choice program equal to those amounts in those years; or

<b>ALT 2a</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>- 15,975,300</u>	<u>- 36,987,600</u>
Net GPR	\$15,975,300	\$36,987,600

(b) *Phased-in Over Five Years.* 58% state/42% MPS in 2007-08, 61% state/39% MPS in 2008-09, 64% state/36% MPS in 2009-10; 67% state/33% MPS in 2010-11; and 70% state/30% MPS in 2011-12 and thereafter. As a result, the MPS general school aid reduction would increase by \$5,354,100 in 2007-08 and \$4,432,600 in 2008-09. This would result in decreased net GPR costs for the choice program equal to those amounts in those years.

<b>ALT 2b</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>9,786,700</u>	<u>- 11,225,600</u>
Net GPR	- \$9,786,700	\$11,225,600

3. *75% State/25% MPS Funding Split.* Delete provision, and instead specify that the choice funding split be:

(a) *Effective Immediately.* 75% state/25% MPS, beginning in 2007-08. As a result, the MPS general school aids reduction would decrease by \$14,872,500 in 2007-08 and \$13,432,000 in 2008-09. This would result in increased net GPR costs for the choice program equal to those amounts in those years; or

<b>ALT 3a</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>- 28,304,500</u>	<u>- 49,316,800</u>
Net GPR	\$28,304,500	\$49,316,800

(b) *Phased-in Over Five Years.* 59% state/41% MPS in 2007-08, 63% state/37% MPS in 2008-09, 67% state/33% MPS in 2009-10, 71% state/29% MPS in 2010-11, and 75% state/25% MPS in 2011-12 and thereafter. As a result, the MPS general school aid reduction would increase by \$4,164,300 in 2007-08 and \$1,880,500 in 2008-09. This would result in decreased net GPR costs for the choice program equal to those amounts in those years.

<b>ALT 3b</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>6,044,800</u>	<u>- 14,967,500</u>
Net GPR	- \$6,044,800	\$14,967,500

4. Delete provision, and instead, beginning with the aid calculation for 2007-08, allow MPS to include 45% of the number of pupils enrolled in the choice program in the prior school year in its membership count for the purpose of calculating general school aids. Under this alternative, there would be shifts in general school aid to MPS from most other school districts in the state.

<b>ALT 4</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>21,012,300</u>	<u>0</u>
Net GPR	- \$21,012,300	\$0

5. Delete provision. As a result, the MPS general school aids reduction would increase by \$8,923,500 in 2007-08 and \$12,088,800 in 2008-09. This would result in decreased net GPR costs for the choice program equal to those amounts in those years.

<b>ALT 5</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$0
MPS Aid Reduction	<u>21,012,300</u>	<u>0</u>
Net GPR	- \$21,012,300	\$0

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