



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #550

### **Milwaukee Parental Choice Program -- Payment and Reestimate (DPI -- Choice, Charter, and Open Enrollment)**

[LFB 2011-13 Budget Summary: Page 356, #1]

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#### **CURRENT LAW**

Under the Milwaukee parental choice program, state funds are used to pay for the cost of children from low-income families to attend, at no charge, private schools located in the City of Milwaukee. The Department of Public Instruction (DPI) pays the parent or guardian of a choice pupil enrolled in a choice school from a separate sum sufficient appropriation from the general fund established for this purpose. In 2010-11, the per pupil payment for the choice program is equal to the lesser of \$6,442 or the choice school's operating and debt service cost per pupil related to educational programming. Beginning in 2011-12, the maximum amount paid per pupil in a given school year would equal the maximum amount paid per pupil in the prior school year adjusted by the percent change, if non-negative, in the general school aids appropriation from the previous school year to the current school year.

The cost of the payments from the choice program appropriation is partially offset by a reduction in the general school aids otherwise paid to the Milwaukee Public Schools (MPS) by a net amount equal to 38.4% the total cost of the choice program. (The net amount is based on an initial reduction to MPS aid equal to 45% of the cost of the choice program, which is offset by a payment to the City of Milwaukee in an amount equal to 6.6% of the 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, less the amount of high poverty aid paid to MPS. After consideration of high poverty aid, in 2010-11 the general fund will pay for 69% of the choice program and MPS for 31%.

Pupils participating in the choice program are not included in the membership count of MPS for the calculation of revenue limits or general school aids.

## GOVERNOR

Provide \$644,200 in 2011-12 and \$2,576,800 in 2012-13 over base year funding of \$132,061,000 in the appropriation for payments for the choice program, based on: (a) reestimates of pupil participation under current law to 20,600 pupils in 2011-12 and 20,900 pupils in 2012-13; and (b) a bill provision to maintain the maximum per pupil payment under the program at \$6,442 for the 2011-12 and 2012-13 school years and to resume the indexing of the choice payment to the change in the general school aids appropriation beginning in 2013-14.

Under this item, the MPS choice reduction would increase by \$247,400 in 2011-12 and \$989,500 in 2012-13 over the base choice reduction amount of \$50,711,400. The net general fund fiscal effect of this item would be increased expenditures of \$396,800 in 2011-12 and \$1,587,300 in 2012-13.

## DISCUSSION POINTS

1. When the choice program was created in 1989 Act 336, the maximum per pupil payment amount was set equal to the equalization aid per pupil received by MPS. This provision was changed in the 1999-01 biennial budget, under which the maximum per pupil choice payment was set at the sum of the previous year's payment plus the per pupil revenue limit adjustment in the respective school year. Under the 2003-05 biennial budget, the maximum payment was adjusted based on the percent change, if positive, in the general school aids appropriation. The 2009-11 biennial budget set the maximum payment amount in 2009-10 and 2010-11 at \$6,442 and restored the general aid adjustment beginning in 2011-12.

2. Under the bill, funding in the general school aids appropriation would decrease from \$4,652,500,000 in 2010-11 to \$4,261,954,000 in 2011-12 and \$4,293,658,000 in 2012-13. This would result in changes of -8.4% and 0.7%, respectively, compared to the prior year. With respect to revenue limits, base revenue per pupil for each district would be reduced by 5.5% in 2011-12 and no adjustment would be made to base revenue per pupil in 2012-13. The maximum per pupil payment under the choice program would remain unchanged from its 2010-11 amount in each year of the 2011-13 biennium.

3. There are several alternatives available to the Committee in determining the maximum per pupil choice payment for the 2011-13 biennium. Four such alternatives are outlined below. Attachment 1 shows, for each alternative in 2011-12 and 2012-13: (a) the maximum per pupil choice payment that would result; (b) the total choice appropriation for the current law program; and (c) the change to the bill in the total GPR choice appropriation, the 38.4% choice reduction to MPS general aid, and the resulting net GPR effect from the state's 61.6% share.

4. The first alternative is to adjust the choice payment by the annual change, positive or negative, in general aid under the bill. Given the magnitude of the reduction in general aid funding in 2011-12 under the bill, it could be viewed as appropriate to make a similar reduction in the choice payment in that year. This would be accomplished by deleting language in current law limiting the

general aid indexing to situations where the percentage change in the general school aids appropriation is not less than zero. This would result in changes to the maximum per pupil choice payment of -8.4% and 0.7%, respectively, compared to the prior year.

5. The second alternative is to adjust the maximum choice payment per pupil to the per pupil adjustment under revenue limits. Some have argued that this is an appropriate measure, since the revenue limit is the maximum amount districts can generate from a combination of general aid and the local levy. Similarly, the maximum choice payment per pupil is the maximum state payment from a combination of the general fund and the MPS levy. Under this option, the choice payment would be reduced by 5.5% in 2011-12 and remain unchanged in 2012-13.

6. A third option would be to restore the choice payment to the level it would have been at prior to the reduction in the 2009-11 biennial budget. Had that act not set the maximum per pupil choice payment at \$6,442, the payment would have remained at \$6,607 in both 2009-10 and 2010-11 under the general aid indexing provisions. Based on the general aid appropriations in the bill, the maximum choice payment per pupil would be \$6,607 in 2011-12 and increase to \$6,653 in 2012-13.

7. A fourth alternative would be to maintain current law. Under this alternative, the maximum choice payment would remain at \$6,442 per pupil in 2011-12, because of the reduction in general aids funding in that year. The payment would increase to \$6,487 per pupil in 2012-13 under current law as a result of the 0.7% in the general school aids appropriation in that year.

8. The fiscal effects in this paper are based only on estimated participation in the program under current law (20,600 pupils in 2011-12 and 20,900 pupils in 2012-13). If the Committee chose to also modify pupil or school eligibility for the choice program, any change in the payment would also affect the fiscal effect for any eligibility modifications. Also, should the Committee choose to index the maximum choice payment to changes to the general school aids funding level or the revenue limit per pupil adjustment in the 2011-13 biennium, modifications in those provisions of the bill would then impact funding for the choice program.

9. The issue of per pupil payments under the choice program can also be considered in the context of the funding disparities resulting from the program.

10. One approach that has been used in the past is to calculate the amount of MPS levy per pupil for the pupils enrolled in MPS compared to the MPS levy per choice pupil. Attachment 2 shows this calculation from 2006-07 through 2010-11. As shown in Attachment 2, while the choice levy per pupil was \$971 more than the MPS levy per pupil in 2006-07, this relationship has almost reversed by 2010-11. In 2010-11, the MPS levy per pupil is \$957 more than the choice levy per pupil.

11. A second approach to considering funding disparities has been identified by the School Choice Demonstration Project (SCDP), a national collaboration of researchers currently based at the University of Arkansas, is conducting a comprehensive longitudinal evaluation of the

choice program, which has included three reports on the fiscal impact of the choice program.

12. The SCDP has found that the choice program has resulted in a positive overall taxpayer savings, but that the distribution was uneven. For 2010-11, the SCDP estimated the net fiscal benefit to state and local taxpayers of the choice program to be \$51.9 million. This estimate is based on the assumption that 90% of choice pupils would otherwise have attended MPS and that state support of K-12 partial school revenues would remain unchanged. Using the 90% MPS attendance assumption, the SCDP estimated that the state general fund benefited by \$31.5 million and non-MPS property taxpayers benefited by \$57.0 million from the choice program. Milwaukee property taxpayers were estimated to be adversely affected by \$36.5 million. The SCDP noted that the creation of high poverty aid in the 2007-09 biennial budget and City choice levy aid in the 2009-11 biennial budget reduced the adverse impact on Milwaukee property taxpayers.

13. The difficulty in resolving the funding disparities resulting from the choice program, as noted in the reports, is attributable to the difference between the per pupil choice payment (\$6,642 in 2010-11) and the MPS revenue limit authority per pupil (\$10,291 in 2010-11). As long as those amounts differ, there will be a net overall public savings from the choice program, with the gains split between state and local taxpayers as a result of the statutory funding system determined by the Legislature.

14. The reports have identified two general options to address the uneven distribution of the fiscal effect of the choice program in relation to Milwaukee property taxpayers. The first option would be to integrate the choice program into MPS finances by letting MPS fully count the pupils for revenue limits and equalization aid and having the state deduct the full cost of the program from MPS aid. This option would, however, would benefit MPS for each choice pupil it loses, because the aid received for the pupil would exceed the choice funding reduction for the pupil. The second option would be to continue to exclude choice pupils from the MPS revenue limit and equalization aid calculations and eliminate the choice aid reduction. Although the revenue limit savings of continuing to exclude choice pupils from MPS would exceed the costs of the choice program, this option would disadvantage the state's general fund compared to current law.

## **ALTERNATIVES**

1. Approve the Governor's recommendation to set the maximum per pupil choice payment at \$6,442 for the 2011-12 and 2012-13 school years and resume the indexing of the payment to the change in the general school aids appropriation, if positive, beginning in 2013-14. Provide \$644,200 in 2011-12 and \$2,576,800 in 2012-13 for choice program payments based on increased participation in the current law program.

2. Delete provision and instead modify the current law adjustment for the maximum choice per pupil payment to specify that it equals the percent change, positive or negative, in the general school aids appropriation. As a result, the maximum choice per pupil payment under the general aid provisions of the bill would be \$5,901 in 2011-12 and \$5,942 in 2012-13.

Under this alternative, the choice program appropriation for the current law program would be reduced by \$11,144,600 in 2011-12 and \$10,450,000 in 2012-13. The MPS choice reduction would decrease by \$4,279,500 in 2011-12 and \$4,012,800 in 2012-13. The net general fund fiscal effect of this alternative would be reduced expenditures of \$6,865,100 in 2011-12 and \$6,437,200 in 2012-13.

<b>ALT 2</b>	<b>Change to Bill Funding</b>
GPR	- \$21,594,600
MPS Aid	
Reduction	<u>- 8,292,300</u>
Net GPR	- \$13,302,300

3. Delete provision and instead specify that the maximum per pupil choice payment in each year be indexed to the per pupil adjustment under revenue limits in the current school year, beginning in 2011-12. As a result, the maximum choice per pupil payment under the revenue limit provisions of the bill would be \$6,088 in both 2011-12 and 2012-13.

Under this alternative, the choice program appropriation for the current law program would be reduced by \$7,292,400 in 2011-12 and \$7,398,600 in 2012-13. The MPS choice reduction would decrease by \$2,800,300 in 2011-12 and \$2,841,100 in 2012-13. The net general fund fiscal effect of this alternative would be reduced expenditures of \$4,492,100 in 2011-12 and \$4,557,500 in 2012-13.

<b>ALT 3</b>	<b>Change to Bill Funding</b>
GPR	- \$14,691,000
MPS Aid	
Reduction	<u>- 5,641,400</u>
Net GPR	- \$9,049,600

4. Delete provision. Instead, specify that the maximum choice payment per pupil would equal \$6,607 in 2011-12 and resume the indexing of the payment to the change in the general school aids appropriation, if positive, beginning in 2012-13. As a result, the maximum choice per pupil payment under the general aid provisions of the bill would be \$6,607 in 2011-12 and \$6,653 in 2012-13.

Under this alternative, the choice program appropriation for the current law program would be increased by \$3,399,000 in 2011-12 and \$4,409,900 in 2012-13. The MPS choice reduction would increase by \$1,305,200 in 2011-12 and \$1,693,400 in 2012-13. The net general fund fiscal effect of this alternative would be increased expenditures of \$2,093,800 in 2011-12 and \$2,716,500 in 2012-13.

<b>ALT 4</b>	<b>Change to Bill Funding</b>
GPR	\$7,808,900
MPS Aid	
Reduction	<u>2,998,600</u>
Net GPR	\$4,810,300

5. Delete provision. Under current law, the maximum choice per pupil payment would be \$6,442 in 2011-12 and \$6,487 in 2012-13.

Under this alternative, the choice program appropriation for the current law program would be increased by \$940,500 in 2012-13. The MPS choice reduction would increase by \$361,100 in 2012-13. The net general fund effect of this alternative would be increased expenditures of \$579,400 in 2012-13.

<b>ALT 5</b>	<b>Change to Bill Funding</b>
GPR	\$940,500
MPS Aid	
Reduction	<u>361,100</u>
Net GPR	\$579,400

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Attachments

## ATTACHMENT 1

### Alternatives for Maximum Per Pupil Choice Payments

	<u>Payment</u>		<u>Current Law Choice Appropriation (\$ in Millions)</u>		<u>Change to Bill (\$ in Millions)</u>					
					<u>GPR (100%)</u>		<u>MPS Aid Reduction (38.4%)</u>		<u>Net GPR (61.6%)</u>	
	<u>2011-12</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2012-13</u>
Bill	\$6,442	\$6,442	\$132.7	\$134.6						
Adjust by General Aid Change	5,901	5,942	121.6	124.2	-\$11.1	-\$10.5	-\$4.3	-\$4.0	-\$6.9	-\$6.4
Adjust by Revenue Limit Adjustment	6,088	6,088	125.4	127.2	-7.3	-7.4	-2.8	-2.8	-4.5	-4.6
Restore Act 28 Reduction	6,607	6,653	136.1	139.0	3.4	4.4	1.3	1.7	2.1	2.7
Current Law	6,442	6,487	132.7	135.6	0.0	0.9	0.0	0.4	0.0	0.6

## ATTACHMENT 2

### Choice and MPS Levies Per Pupil

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<b>Choice</b>					
Initial 45% Aid Reduction	\$49,732,650	\$54,120,825	\$57,976,425	\$58,557,780	\$58,847,670
High Poverty Aid	N.A.	\$7,437,493	\$9,864,309	\$9,740,560	\$9,740,560
City Payment	N.A.	N.A.	N.A.	\$4,424,366	\$8,630,992
Net Choice Levy	\$49,732,650	\$46,683,332	\$ 48,112,116	\$44,392,854	\$40,476,118
Choice Enrollment Used for Aid Reduction	17,000	18,500	19,500	20,200	20,300
Net Choice Levy per Pupil	\$2,925	\$2,523	\$2,467	\$2,198	\$1,994
<b>MPS</b>					
Total MPS Levy	\$244,416,781	\$264,062,915	\$301,058,185	\$308,687,776	\$305,986,710
Community Service Levy	\$9,327,455	\$10,340,610	\$11,142,826	\$10,226,234	\$13,334,418
MPS Levy Less Net Choice and Comm. Serv. Levies	\$185,356,676	\$207,038,973	\$241,803,243	\$254,068,688	\$252,176,174
MPS Current Year Revenue Limit Enrollment	94,871	92,082	89,492	87,053	85,455
MPS Levy per Pupil	\$1,954	\$2,248	\$2,702	\$2,919	\$2,951
Choice Levy less MPS Levy per Pupil	\$971	\$275	-\$235	-\$721	-\$957