



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #553

### **Independent Charter School Program Expansion (DPI -- Choice, Charter, and Open Enrollment)**

[LFB 2011-13 Budget Summary: Page 360, #6; Page 361, #7 & #8; and Page 362, #10]

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#### **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 is 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, known as "2r" charter schools in reference to their statutory citation, receive direct state funding, with an offsetting reduction to general school aids. Under the Milwaukee and Racine charter school program, the Common Council of the City of Milwaukee, the Chancellor of the University of Wisconsin-Milwaukee, 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 these entities may establish, nor on the number of pupils that may enroll. In 2010-11, 17 charter schools (12 from UW-Milwaukee and five from the City) are operating in Milwaukee, with an estimated enrollment of 6,735 full-time equivalent (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 2010-11, 454 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 school, which is estimated to total \$1.3 million in 2010-11, 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 2010-11, the charter school per pupil payment amount is \$7,775, and it was estimated that \$56.0 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 in the current year. Based on the October 15, 2010, general school aids estimate prepared by DPI, the charter school program aid reduction will total \$57.3 million in 2010-11. Each district's general school aids will be reduced proportionally by 1.2% to generate the \$57.3 million needed to offset the GPR cost of the program. Under 2009 Act 28, the offsetting reduction in general school aids would be capped at the amount of reduction taken in 2010-11. Beginning in 2011-12, expenditures for charter schools above the 2010-11 reduction amount would be funded with state GPR.

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. School district revenue limits are not affected by the charter school reduction in general school aids, so that school district may levy property taxes to offset the amount of revenue lost due to the reduction.

## **GOVERNOR**

Authorize the Chancellor of any University of Wisconsin System institution and the Chancellor of UW-Madison to establish and operate independent charter schools. Increase estimated expenditures by \$4,665,000 GPR in 2012-13 and increase statewide general aid reductions for school districts by a corresponding amount.

For the purposes of the charter school program, a UW institution would be defined as any University or an organizational equivalent designated by the Board of Regents and the University of Wisconsin Colleges. Specify that the chancellors of institutions within the UW System could not establish a charter school without the approval of the Board of Regents of the UW System. Delete current law that: (a) specifically authorizes only the chancellors of UW-Milwaukee and UW-Parkside to establish and operate independent charter schools; (b) prohibits UW-Milwaukee from establishing a charter school outside MPS; and (c) prohibits UW-Parkside from establishing a charter school outside RUSD.

Provide that if the chancellor of any UW System institution contracts for the establishment of a charter school, then the Board of Regents of the UW System may employ instructional staff for the school. Specify that annual leave of absence with pay for charter school instructional staff employed by the Board of Regents must be determined by the governing board of the charter school, as approved by the Chancellor of the UW System institution that

established the school, and subject to the terms of any applicable collective bargaining agreement. Under current law, these provisions apply only to UW-Parkside.

Delete the current law provision that would have capped the reduction in general school aid for all school districts, related to the independent charter school program, at the amount of the reduction taken for the 2010-11 school year and paid additional amounts for the program in future years from the general fund. Instead, for the entire amount paid to independent charter schools in a given school year, the bill would reduce general aid for all school districts by an equal amount. Increase the statewide aid reduction attributable to independent charter schools by \$5,820,000 in 2011-12 and \$10,485,000 in 2012-13.

## **DISCUSSION POINTS**

1. When the first charter school legislation was introduced in the early 1990s, charter schools were intended to accomplish four primary objectives: (1) to encourage the development and implementation of innovative teaching methods through increased flexibility and freedom from regulations; (2) to improve the educational system as a whole by increasing competition for pupils among schools; (3) to provide increased accountability; and (4) to offer additional educational options to pupils and parents. As of March, 2011, 40 states and the District of Columbia have laws authorizing new and conversion charter schools. Twenty-one states set caps on the number of charter schools that may be created (either overall or by geographic area or type). In 17 states, all charter schools are their own local educational agency, making them free of all district control.

2. Charter schools have been subjects of academic interest and research, given their rapid growth over the past two decades. Most studies of charter schools have been limited in scope, concentrating on a handful of states or school districts. However, in 2009 the results of a multi-state study were released by the Center for Research on Education at Stanford University. The Stanford study examined 2,403 charter schools in 14 states (the study did not include Wisconsin) and the District of Columbia. Researchers used student-level longitudinal data from each of the participating states, and matched local public school students to charter school students according to race, ethnicity, eligibility for free and reduced-price school meals, participation in special education, English language proficiency, and starting test scores. The analysis found that the effectiveness of charter schools can vary widely by state, with five states (Arkansas, Colorado, Illinois, Louisiana, and Missouri) showing higher learning gains for charter schools than each state's traditional schools, six states (Arizona, Florida, Minnesota, New Mexico, Ohio, and Texas) that showed lower average growth for charter school students, and four states (California, District of Columbia, Georgia, and North Carolina) that showed mixed results or no significant differences between charter school students and their traditional school peers.

3. In addition, the Stanford study found that, in general, students enrolled in first-year charter schools performed worse than students in charter schools that had been open longer, although those first-year students tended to make up for the initial performance in subsequent years. The Stanford study revealed a correlation between state policies on charter schools and student academic growth. The presence of a state policy capping charter schools, and state policies permitting multiple entities to serve as authorizers for charter schools, correlated with a negative

effect on academic growth.

4. The Stanford study also compared charter schools to the traditional public schools from which the charters draw students, in order to show whether charter student outcomes were equivalent to what the students would have realized, had they enrolled in their community's traditional public schools. Across all 2,403 charter schools, 46% were not significantly different than their local traditional public schools in their math gains, while 17% of charter schools had math gains that were significantly better than traditional schools, and 37% had results that were significantly worse than the growth by students in their local traditional public schools. On the other hand, certain student subgroups made larger gains in charter schools than their peers in public schools. Students living in poverty and English language learners performed better in charter schools, perhaps indicating that charter schools have developed expertise in serving those populations. However, other student subgroups, notably African-Americans and Hispanic students as a whole, had smaller learning gains than their peers in traditional public schools.

5. Specifically regarding Wisconsin charter schools, in 2004 researchers at the La Follette School of Public Affairs released a regression analysis of 4<sup>th</sup> and 8<sup>th</sup> grade Wisconsin knowledge and concepts examination results for charter and non-charter pupils in the 2000-01 and 2001-02 school years. In nearly all comparisons, that study found that Wisconsin charter schools compared favorably to their non-charter counterparts. Among the study's conclusions was a finding that, on average, school districts with charter schools tended to perform less well overall than school districts without charter schools. Researchers speculated that non-charter districts might not have charter schools because their pupils are doing well overall, so there was less perceived need for charter schools. Although pupils in traditional schools were in some cases more likely to score in the highest "advanced" exam result category, charter school pupils generally were, on average, more likely to score in the "proficient" range, which is considered a passing score. While charter schools had fewer high-achieving pupils than traditional public schools, charter school pupils were also less likely to score in the lower "minimal" and "basic" categories compared to the average rates of pupils scoring in those categories in all school districts. This finding is significant because charter schools appeared to have their most positive effects on low-achieving pupils, bringing them up to the proficient level in proportions higher than would be expected based on school characteristics. A weakness of the summary findings was a lack of a control for race and income statistics.

6. More recently, the School Choice Demonstration Project released the first of three planned reports in December, 2010, evaluating the impact of independent charter schools on student achievement in Milwaukee, beginning with Wisconsin knowledge and concepts exam scores from 2006-07 and 2007-08. The study focused on 10 "2r" charter schools, six charters from UW-Milwaukee and four from the City of Milwaukee, enrolling a total of 2,500 pupils in grades 3 through 9 in 2006-07. Charter pupils were matched with MPS control group pupils based on demographic characteristics and starting baseline test scores, for the sake of comparability between the two groups.

7. The results of this first year of achievement growth were mixed. The report concluded that there were few significant effects on achievement in either math or reading for pupils attending a charter school. When student demographic characteristics and switching schools were included as control variables, charter schools students performed no better in math than the matched

MPS students. However, when controlling only for prior achievement levels, students in charter schools gained more than MPS students in mathematics. Specifically, the charter schools were found to have their strongest positive impacts on students who began with the lowest levels of achievement on the first year's test results.

8. The study found that students in both MPS and the independent charter schools with higher achievement levels in 2006-07 continued to have higher achievement levels in 2007-08, compared to pupils with lower scores in the first year. Similarly, pupils receiving special education services showed lower achievement compared to non-disabled pupils. Students who switched schools consistently had a negative impact on subsequent achievement. All of these findings were consistent with conclusions reached in other student achievement studies.

9. Researchers also examined differences between and among the independent charter schools. Students in charter schools that had been converted from private schools performed better than their MPS counterparts in both math and reading at statistically significant levels, even when controlling for student characteristics and school switching. However, because students in conversion charters were a relatively small portion of the overall sample, the report indicates that the results were not enough to make the general result statistically significant. Researchers note that the conclusions from this longitudinal study could change as additional years of data are examined.

10. Proponents of charter schools have argued that competition for students from charter schools will force public schools to improve. However, there is limited evidence that Wisconsin's educational system as a whole has improved since the advent of the charter school movement. For example, the state's scores on the National Assessment of Educational Progress (NAEP), often called the 'nation's report card,' have plateaued over the past two decades.

11. In 1992, Wisconsin fourth graders earned a 224 scale score in reading, nine points higher than the national average of 215. In 2009, the state's score had dropped four points and equaled the national average at 220. Wisconsin eighth graders did not take the NAEP in 1992 or 1994, but in 1998, eighth graders earned a 266 scale score in reading, five points higher than the national average of 261. In 2009, Wisconsin eighth graders remained at 266, while the national average was 262. In mathematics, Wisconsin fourth graders earned a score of 229 in 1992, 10 points above the national average. In 2009, Wisconsin's score had improved to 244, but the national average had also improved to 239, cutting the state's advantage in half. The trend for eighth grade mathematics was similar. Wisconsin scored 278 in 1992, 11 points higher than the national average. In 2009, the state's 288 score was just six points higher than the national average. While any number of factors could have influenced the overall trends, including national education policy, an increasingly diverse school population, funding or other issues, it does not appear that charter schools have led to systemic gains for traditional public schools in this state.

12. Opponents argue that popular models of education reform in recent years, including private school vouchers and charter schools, have been detrimental to traditional public school systems in a number of ways. They argue that forcing public schools to compete for students and revenue has not had the desired effect of improving the system as a whole, nor is there conclusive evidence that the increased flexibility and freedom afforded to charter schools have led to uniformly higher student achievement. Instead, they argue, well qualified teachers with adequate funding and

support, and an enriched, comprehensive curriculum in a wide range of disciplines, are the most important factors in providing a quality education to students.

13. On the other hand, charter schools do offer a diversity of educational settings to students and parents, which has been a popular option in Wisconsin. Across the state, charter schools offer programs for at-risk students, Montessori settings, environmental studies, math and science concentrations, project-based learning, and vocational/technology specialties. An estimated 37,000 students are attending 206 charter schools across the state in 2010-11, most of them sponsored by local school districts.

14. Enrollment in independent charter schools operating under current law provisions are expected to grow in the 2011-13 biennium. One of the 19 charter schools operating this year will transition to sponsorship by Milwaukee Public Schools (MPS) and will no longer be funded as an independent charter school; however, three new schools are expected to open in 2011-12 under the chartering authority of the City of Milwaukee. It is estimated that the net effect will be enrollment growth of 600 pupils in the first year and 1,200 pupils in the second year, compared to 2010-11. The fiscal effect of this growth would equal additional expenditures of \$4,665,000 in 2011-12 and \$9,330,000 in 2012-13 at the current law per pupil payment amount.

15. The Governor's budget recommendations would authorize the Chancellor of any University of Wisconsin System institution and the Chancellor of UW-Madison to establish and operate independent charter schools, and would expand the program from Milwaukee and Racine to the rest of the state. The Governor's Budget in Brief and Executive Budget Book reference authorization for all four-year University of Wisconsin campuses to sponsor independent charter schools, in any school district in the state.

16. However, the statutory language of the bill authorizes all UW institutions to sponsor such charter schools, including the two-year UW Colleges, as well as the newly independent UW-Madison. No two-year campuses have previously been authorized to sponsor charter schools, and it was apparently not the Governor's intent to do so, based on the executive budget documents. One could argue that operating an elementary or secondary school falls outside the scope of two-year UW Colleges, whose primary purpose is to provide students general education courses in preparation for transfer to a four-year institution. Therefore, it might be desirable to eliminate the authority granted to UW Colleges under the bill.

17. On the other hand, the authority for two-year campuses was not included in the Governor's errata memo for removal from the bill. In addition, it might be desirable for a two-year campus to operate a high school, for example, with a focus on preparing students for college and easing the transition to post-secondary education. However, it is not clear that two-year campuses would have space to accommodate pre-college pupils, nor that leadership within the colleges would choose to operate charter schools if given the authority.

18. It is unclear at this time whether additional UW institutions would choose to authorize additional independent charter schools. However, UW-Milwaukee, which currently sponsors 12 charter schools, and UW-Parkside, which is currently limited to one charter school, would be permitted under the bill to establish charter schools in any school district. Both

universities are limited under current law to sponsoring schools within the districts in which they are located. It is not known whether these institutions would choose to expand the number and locations of charter schools they sponsor.

19. Staff from the Department of Administration (DOA) indicate that the estimated cost for expansion of the independent charter school program is based on approximately 600 additional pupils in 2012-13, at a per pupil payment of \$7,775. It is anticipated that, based on the timing of the passage of the budget bill, no additional schools attributable to the expansion of the program would be chartered by a University of Wisconsin institution in time for the start of the 2011-12 school year.

20. Also under the bill, all additional expenditures for this program would be deducted from the general school aids for all school districts, resulting in no net GPR cost. (In contrast, under current law, expenditures above the 2010-11 amount would be funded directly with GPR, rather than through a state aid offset.) As under current law, school districts would be permitted under revenue limits to backfill the lost aid with additional property taxes.

21. The Governor has recommended a 5.5% reduction in revenue limits across the board for public school districts, but included no such reduction for independent charter schools. It might be desirable for the Committee to decrease the per pupil payment amount for independent charter schools in 2011-12 and 2012-13 by an equal percentage. Such a change would have the advantage of treating all public school students equally under the budget. One could argue that it is arbitrary to hold harmless only those public school pupils who are enrolled in a particular type of public school. An additional advantage would be that any reduction in payments to "2r" charter schools would lessen the general aid reduction made to all other public schools on their behalf.

22. Some would argue that independent charter schools should not be subjected to such a cut, because they rely on state aid and do not have access to the property tax levy. However, because the reduction for public schools would be applied to revenue limits, state and local resources to school districts would decrease by 5.5%. In that sense, both public schools and charter schools would be losing the same percentage of their primary revenues.

23. If a 5.5% reduction would be applied to the current \$7,775 per pupil payment amount, payments would be reduced by \$428, to approximately \$7,347 per pupil. Such a reduction in the charter per pupil payment amount would reduce GPR expenditures by \$3,338,400 in 2011-12 and \$3,852,000 in 2012-13, and would reduce corresponding general school aid reductions by the same amount. For comparison, the average per pupil base revenue limit authority in 2010-11 is \$10,100; therefore, a 5.5% reduction would bring the average to approximately \$9,545 per pupil, a loss of \$555 in revenue per pupil for public schools.

24. It should be noted that, although under the bill pupils could come from any school district to attend such schools, the school district in which a new independent charter school would be located would likely be most affected by such a loss of pupils. Under current law, charter schools are not required to provide transportation to their pupils, and public school districts are not required to transport pupils to independent charter schools. Therefore, parents would be responsible for transporting their children to such a new charter school.

25. For each additional pupil enrolling in an independent charter school that would otherwise have been enrolled in a public school district, the revenue limit for that district would decrease. Under revenue limits, one-third of the number of charter pupils that leave a school district would be reflected immediately under the three-year rolling average of enrollment. Revenue limits for a school district would fully reflect the loss of additional charter pupils only in the third year. The total amount of revenue limit authority lost would depend on those districts' individual per pupil revenue limit amounts.

26. Once the three-year rolling average fully reflects a pupil moving from a school district to a proposed independent charter school, the revenue associated with this pupil would decrease, on average, from \$10,100 to \$7,775. As a result, the amount of state and local revenue in the K-12 public school system would decline by approximately \$2,325 per pupil for each such transfer. However, if a pupil that otherwise would not have attended a school district would choose to attend an independent charter school, then the amount of state and local revenue in the K-12 system would increase by \$7,775.

27. Because general school aids are calculated using prior year membership and shared cost data, the loss of any pupils from school districts to the independent charter schools would not directly affect the amount of equalization aid received by those school districts until the next year. Once these pupils and their related shared costs would be fully excluded for general school aid purposes, there would be aid shifts under the equalization aid formula. Because pupils could attend independent charter schools under the bill that otherwise would have attended school districts under current law, a redistribution of general school aids would occur, from those affected school districts to other school districts in the state. However, since any number of school districts could be affected, it is difficult to present specific examples because of interaction effects under the formula.

28. For a pupil currently attending a school district who moves to an independent charter school, the aid effect will depend on the aid characteristics of the school district. In most school districts, in isolation, if membership declines by one pupil and the related shared costs decline by \$10,100, general school aids will fall by approximately \$10,100. Since the independent charter aid reduction for this pupil totals \$7,775, in this case, other school districts would be advantaged by approximately \$2,325 that would be distributed statewide through the equalization aid formula. However, for a school district with higher equalized value per member (above approximately 1.7 times the statewide average in aid year 2010-11), such a reduction in membership and shared costs would not affect the amount of aid it receives, since the district's aid does not change with small changes in membership or costs. In this case, other school districts would be disadvantaged by the proportional aid reduction of \$7,775 that is spread across the aid paid to all districts in the state, in order to offset the GPR cost of the payment to the independent charter school. Finally, for a pupil that otherwise would not have attended a school district, then the amount of state aid for school districts would be reduced by the proportional aid reduction of \$7,775 that is spread across the aid paid to all districts in the state, in order to offset the GPR cost of the payment to the independent charter school.

29. As under current law, school districts could increase school property taxes to replace any additional aid reductions from general school aids. These reductions would occur under the bill to offset increased state expenditures on the charter program, and there would also be aid shifts due



to changes in shared costs and membership related to the additional independent charter pupils.

30. In an April 21, 2011, letter addressed to members of the Committee, the Department of Public Instruction argues that it would be inappropriate to impose additional aid reductions on school districts in order to fund an expanded independent charter school program. In the context of state budget constraints, including a 5.5% reduction in revenue limit authority and an 8% reduction in state aid, school districts would see a reduction in overall resources. The Governor's budget bill would also uncap the amount of the aid reduction that independent charter schools would impose on school districts.

31. Alternatively, the Committee could choose to reinstate the 2009 Act 28 provision that would provide GPR funding for independent charter school expenditures above the amount spent in 2010-11. This would mitigate the school aid loss to public school districts, and a possible subsequent rise in property taxes, by providing direct state funding. The state aid reduction amount would still be made, but would not increase above the level of this year's reduction. However, this alternative would require a commitment of new GPR of \$5,820,000 in 2011-12 and \$10,485,000 in 2012-13 related to the base reestimate of the current law program, and an additional \$4,665,000 GPR in 2012-13 related to the expansion of the program.

32. In the current environment of significantly reduced resources, it might be desirable to delay the expansion of the independent charter school program, so as to avoid further reductions to school districts or increased costs to local property taxpayers. A delay would also allow additional time for the longitudinal study conducted by the School Choice Demonstration Project to provide more data on the effectiveness of independent charter schools in Milwaukee. Additionally, the policy of allowing school districts to offset state aid losses with the levy arguably conflicts with the policy goals of the levy limits imposed on counties, municipalities, and technical colleges elsewhere in the Governor's budget. At the same time, to deny school districts access to that revenue would impose further resource cuts on an educational system that already will experience significant reductions under the bill.

## **ALTERNATIVES**

### **A. Funding Mechanism for Independent Charter Schools**

1. Approve the Governor's recommendation to modify the funding mechanism for charter schools so that for the entire amount paid to independent charter schools in a given school year, general aid for all school districts would be reduced by an equal amount. Under the bill, the statewide aid reduction attributable to independent charter schools would increase by \$5,820,000 in 2011-12 and \$10,485,000 in 2012-13 related to the base reestimate of the current law program.

2. Delete the Governor's recommendation to modify the funding mechanism for charter schools. This alternative would restore current law that provides GPR funding for independent charter school expenditures above the amount spent in 2010-11. Reduce statewide aid reductions for all school districts by \$5,820,000 in 2011-12 and \$10,485,000 in 2012-13, which would reduce the general fund balance by \$16,305,000 in the 2011-13 biennium.

<b>ALT A-2</b>	<b>Change to Bill</b>
	<b>Funding</b>
Statewide Aid	
Reductions	- \$16,305,000

**B. Statewide Expansion of Independent Charter Schools**

1. Approve the Governor's recommendation to authorize the Chancellor of any University of Wisconsin System institution and the Chancellor of UW-Madison to establish and operate independent charter schools. Estimated expenditures for independent charter schools and corresponding statewide aid reductions from school districts would increase by \$4,665,000 GPR in 2012-13 under the bill.
2. Modify the Governor's recommendation to exclude two year UW Colleges. Under this alternative, only four-year UW institutions would be permitted to establish independent charter schools.
3. Delete the provision. Delete \$4,665,000 GPR in 2012-13 and reduce statewide aid reductions from school districts by a corresponding amount.

<b>ALT B-3</b>	<b>Change to Bill</b>
	<b>Funding</b>
GPR	- \$4,665,000
Statewide Aid	
Reductions	- 4,665,000

**C. Per Pupil Payment to Independent Charter Schools**

1. Modify the Governor's recommendation, which would retain the current year per pupil payment amount of \$7,775, to instead reduce the per pupil payment amount for independent charter schools by 5.5%. The per pupil payment would be reduced by \$428, to \$7,347 per pupil. Reduce GPR funding and statewide general aid reductions by \$3,338,400 in 2011-12 and \$3,852,000 in 2012-13, based on enrollment levels assumed in the bill. (If the expansion would not be approved, then the change to the bill would equal \$3,595,200 in 2012-13.)

<b>ALT C-1</b>	<b>Change to Bill</b>
	<b>Funding</b>
GPR	- \$7,190,400
Statewide Aid	
Reductions	- 7,190,400

2. Take no action. This alternative would leave the per pupil payment unchanged from \$7,775.

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