



Legislative Fiscal Bureau

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TO: Representative Robin Vos
Room 217 West, State Capitol

FROM: Russ Kava, Fiscal Analyst

SUBJECT: Discussion of the Effects of the Financing of the Racine Private School Choice Program on the Racine Unified School District

At your request, I am providing information on the effects of the financing of the Racine private school choice program on the Racine Unified School District (RUSD). This memorandum presents background information on the private school choice programs and then uses a question and answer format to address the financing of the program.

Background

Under the Milwaukee, Racine, and statewide private school choice programs, the state pays a statutorily-determined per pupil amount for children from eligible families to attend participating private schools. In 2018-19, the per pupil payment is equal to \$7,754 for a pupil in grades K-8 and \$8,400 for a pupil in grades 9-12.

Under the Racine and statewide programs, payments for continuing pupils (those who participated in the programs in the 2014-15 school year or earlier) are fully funded from the general fund. Payments for incoming pupils (those who first participated in the programs in the 2015-16 school year or later) are fully offset by a reduction in the general aid that would otherwise be paid to those pupils' school districts of residence. School districts count incoming choice pupils for general aids on a prior year basis, and receive a revenue limit adjustment for each pupil in the current year. The revenue limit adjustment is equal to the amount of the aid reduction. Other than the revenue limit adjustment, school districts are not permitted to levy to make up for the aid reductions attributable to the Racine or statewide choice programs. In 2018-19, the total cost of payments for pupils in the Racine program is equal to an estimated \$25.6 million, with the aid reduction for incoming pupils equal to \$18.3 million and net general fund costs of \$7.3 million for continuing pupils in the program. The total cost of payments for pupils in the statewide program in 2018-19 is equal to an estimated \$54.6 million, with the aid reduction for incoming pupils equal to \$50.0 million and net general fund costs of \$4.6 million for continuing pupils in the program.

Under the Milwaukee program, payments are made from a sum sufficient general fund appropriation that totals an estimated \$221.8 million in 2018-19. To partially offset the cost of the program, the Department of Public Instruction is required by law to reduce the general aid for which the Milwaukee Public Schools (MPS) is eligible by a percentage of the total cost of the program. In 2018-19, the net aid reduction, after consideration of aid that is paid to the City of Milwaukee to reduce the levy it raises on behalf of MPS, is equal to 19.2% of the total cost of the program, or \$42.6 million. Under 2013 Act 20, this percentage will be reduced by 3.2 percentage points in each year until no aid reduction is made beginning in 2024-25. Thus, the initial state share of the cost of the program in 2018-19 was equal to \$179.2 million.

Under revenue limits, MPS can levy to make up for the aid reduction. By law, any high poverty aid MPS will receive must be used to offset the choice levy attributable to the general aid reduction. In 2018-19, MPS will receive \$6.3 million in high poverty aid. After consideration of high poverty aid, the effective aid reduction for MPS related to the choice program is \$36.3 million, which is 16.4% of the estimated cost of the program in 2018-19. The state thus funds 83.6% of the Milwaukee program, which was \$185.5 million in 2018-19. This is the sum of the \$179.2 million shown above plus the \$6.3 million of high poverty aid.

What effect did the current law financing structure for the Racine choice program have on property taxes in RUSD in 2018-19?

There are two primary factors relating to the Racine choice program that affect property taxes. First, there was a revenue limit adjustment of \$18.3 million for RUSD in 2018-19 equal to the aid reduction for pupils attending the Racine choice program. Because RUSD levied to its maximum under revenue limits and thus fully used this revenue limit adjustment, its levy was increased by \$18.3 million. Second, RUSD was able to include a portion (1,783 of 3,242) of the choice program pupils in its membership under general school aids, so that its general school aid was \$13.5 million higher than it otherwise would have been, compared to a scenario where RUSD could not include those pupils in membership. As a result, if you include the effects of this additional membership, the net change to its property taxes was an increase of \$4.8 million.

What effect would a fully state funded Racine choice program have had on property taxes in RUSD?

This question addresses the effect a fully GPR funded Racine choice program (similar to the out-year Milwaukee choice program) would have, had it applied in 2018-19. Under this scenario, there would be no revenue limit adjustment for RUSD equal to the aid reduction that partially offsets the GPR costs of the program. This would have reduced the RUSD revenue limit by \$18.3 million. In addition, similar to the Milwaukee choice program, RUSD would not have included choice program pupils in its membership. This would have decreased general school aid by \$13.5 million, which would have been backfilled with levy. The net effect on RUSD property taxes would have been a reduction of \$4.8 million under this scenario.

What would the effect on aid received by RUSD have been if no school districts included choice pupils in their membership?

In addition to RUSD, all districts with incoming pupils in the statewide program are also able to include incoming pupils in their aid memberships. For the 2018-19 aid year, the statewide pupil membership of 855,804 included 5,513 incoming choice pupils. If none of these incoming choice pupils had been included in the aid membership for their districts of residents, RUSD's general aid eligibility would have been reduced by \$12.8 million compared to current law, rather than \$13.5 million if only RUSD had excluded these choice pupils from its membership.

What would the effect have been on RUSD if the Racine choice program had not existed in 2018-19 and all of the pupils had attended RUSD?

Based on 2018-19 enrollments and current year revenue per pupil under revenue limits, it is estimated that RUSD's revenue limit would have increased by \$32.6 million if the Racine choice pupils had instead been fully included in RUSD's count for that year. RUSD would not have received the \$18.3 million revenue limit adjustment equal to the amount of the aid reduction for incoming pupils. The net change to the District's revenue limit would have been \$14.3 million.

Gross general school aid eligibility and net payments to RUSD would also have been affected by the attendance of choice pupils. Had the net change in revenue limit authority and the net enrollment change related to the Racine choice pupils been included in RUSD's equalization aid formula factors in 2018-19, it is estimated that the District's gross aid eligibility would have increased by \$16.9 million compared to current law.

The change to the RUSD's maximum levy would be the difference between the net change to the District's revenue limit and the change in the District's gross aid eligibility. Had these changes been fully phased-in for RUSD in 2018-19, this would have been the difference between the \$14.3 million net revenue limit increase and the \$16.9 million increase in gross general aid eligibility, or a levy decrease of \$2.6 million. The change to a district's financial resources (the amount of funding available for school district operations, regardless of fund source) would be the sum of the net change to the district's revenue limit and increase in the district's net general aid as a result of the elimination of the aid reduction for incoming pupils. For RUSD in 2018-19, this would have been the sum of the \$14.3 million net revenue limit increase and the \$18.3 million increase resulting from the aid reduction for incoming choice pupils, or a total of \$32.6 million.

In addition, the attendance of some percentage of choice pupils at a public school in their district of residence would result in a higher per pupil aid eligibility, outside of revenue limits, for the District. In 2018-19, each district received a \$654 per pupil aid payment from a sum sufficient appropriation from the general fund. If all Racine choice pupils had attended RUSD in 2018-19 and been fully phased-in for its revenue limit count for that year, RUSD per pupil aid would have increased by \$2.1 million.

The calculations above assume that all of the pupils in only the Racine choice program had attended RUSD schools, and that the none of the net general fund expenditures related to the Racine

choice program for the cost of payments for continuing pupils in the program (\$7.3 million in 2018-19) would instead have been appropriated for general school aid to account for the attendance of additional pupils at public schools. Changes to these assumptions relating to pupil attendance and program funding would affect the RUSD gross general aid eligibility amount and, thus, the RUSD levy.

What would the effect have been on RUSD if the Milwaukee, Racine, and statewide choice programs had not existed in 2018-19 and all of the pupils had attended their district of residence?

If all of the pupils in the Milwaukee, Racine, and statewide programs had attended public schools in their districts of residence and none of the net general fund expenditures related to any of the choice programs (a total of \$191.1 million in 2018-19 for the three programs) would instead have been appropriated for general school aid, it would have had a different effect on RUSD's general aid eligibility than if only the Racine program were considered as under the previous question. Under such a scenario, RUSD's gross general aid eligibility would have increased by \$9.4 million, rather than the \$16.9 million noted above if only the Racine program were considered. The net \$14.3 million change in the RUSD revenue limit described above would not be affected, with the net revenue limit change and the gross general aid eligibility change resulting in an estimated \$4.9 million levy increase for RUSD, had all these changes been fully phased-in for 2018-19.

However, if the \$191.1 million in net general fund expenditures related to the three choice programs were instead appropriated for general school aid and if all of the choice pupils had attended public schools in their districts of residence, RUSD's gross general aid eligibility would have increased by \$14.2 million. The net \$14.3 million change in the RUSD revenue limit would not be affected, with the net revenue limit change and the gross general aid eligibility change resulting in an estimated \$0.1 million levy increase for RUSD, had all these changes been fully phased-in for 2018-19.

I hope this information is helpful. Please contact me if you have further questions.

RK/lb