

Date: August 7, 2017

To: Members, Joint Committee on Finance

From: Dee Pettack, Legislative Liaison

Subject: **Implications of Delayed Passage of the 2017-19 Biennial Budget Bill**

This memo provides information with regard to the impact of a delayed 2017-19 biennial budget on various state school finance calculations for the 2017-18 school year, for public school districts, as well as private choice schools and independent charter schools.

As you know, the Department is required by state law to certify state general school aids for public school districts annually by October 15th, which involves processing a significant amount of data. In addition, school districts rely on the October 15th certified aid amounts and other data provided by the Department to set property tax levies by November 1st. The first quarterly payments to private choice schools and independent charter schools must be calculated and distributed in September. Finally, a delayed budget could impact the distribution of categorical aid that is paid earlier in the school year.

This memo outlines the problematic situations that will ensue if the budget is not signed into law in the near future. The 2017-19 biennial budget must be signed into law by the dates indicated below, in order to complete the specified calculations and payments:

1. **August 31st** – to enable the Department to distribute Sparsity Aid payments to school districts on the same timeline as prior years (paid in September), otherwise payments will be delayed.
2. **September 5th** – to enable the Department to incorporate the indexing of the per pupil payments for the 2017-18 school year in the statutorily-required September payments to independent charter schools and private schools participating in any of the state’s parental choice programs. Otherwise, changes in funding will be allocated across the other payments.
3. **October 3rd** – to enable the Department to run the October 15th General Aid Certification*, incorporating the aid deductions to all school districts related to the Independent Charter School Program, the Wisconsin Parental Choice Program, Racine Parental Choice Program, Special Needs Scholarship Program and the aid deduction to Milwaukee Public Schools for the Milwaukee Parental Choice Program. Districts have the authority to essentially levy back for these deductions. Missing this deadline may result in insufficient state aid deductions, which will increase cost to the state general fund.
4. **October 27th** – to enable school districts to set levies, incorporating the revenue limit exemption for resident incoming choice pupils and pupils receiving a Special Needs Scholarship, based on an accurate per pupil payment amount for the 2017-18 school year. Failure to meet this deadline may result in districts under-levying the costs for choice and charter programs.

*Note that because October 15th falls on a Sunday this year, the Department will release certified state general aid amounts for each of the 422 school districts on **October 13th**.

Each of the issues identified above are explained in more detail in the following pages.

This memo uses acronyms for the following programs:

- Milwaukee Parental Choice Program (MPCP)
- Racine Parental Choice Program (RPCP)
- Wisconsin Parental Choice Program (WPCP)
- Special Needs Scholarship Program (SNSP)
- Independent Charter Schools Program (ICSP)
- Public School Open Enrollment (OE)

Current Law

Department does not have authority to change the appropriated amounts upon which state aid payments are calculated for public school districts, or for private or independent charter schools, above the amounts appropriated in the 2016-17 chapter 20 schedule, absent a signed budget. Per s. 20.002, Wis. Stats.:

“(1) Effective period of appropriations. Unless otherwise provided appropriations shall become effective on July 1 of the fiscal year shown in the schedule under s. 20.005 and shall be expendable until the following June 30. If the legislature does not amend or eliminate any existing appropriation on or before July 1 of the odd-numbered years, such existing appropriations provided for the previous fiscal year shall be in effect in the new fiscal year and all subsequent fiscal years until amended or eliminated by the legislature.” [emphasis added]

Also under current law, the indexing mechanism for per pupil payments for the ICS, the SNSP, and the state’s three private school parental choice programs (MPCP, RPCP, WPCP – collectively, “choice programs”) is directly linked to the increase in the state revenue limit per pupil adjustment and the per pupil increase in state categorical aids provided to public school districts. In the absence of a signed budget bill, the Department has no authority to increase the per pupil payment to schools in these programs above current law levels.

1. State General Aid Certification

The Department is responsible for administering the state general equalization aid appropriation for the state’s 422 school districts, based on data from the prior fiscal (school) year. Specifically, s. 121.15 (4) (b), Wis. Stats., states that:

“On October 15, using the most accurate data available, the State Superintendent shall calculate the total amount of state aid that each school district will receive in the current school year. Any adjustments to that calculation shall be made by increasing or decreasing the payment made in September of the following school year.”

There are no specific changes proposed in the budget to the state general school aid formula. While the Assembly Republican plan for K-12 education did include a \$20 million increase to the general aids appropriation for the 2017-18 school year, neither the Governor’s nor the Senate’s proposals provide an increase for the first year of the biennium. As noted previously, the Department will release certified state general aid amounts on October 13th. The budget bill must be signed by **October 3rd** to allow sufficient time to process the general aid calculations with all required aid reductions.

2. Indexing of Per Pupil Payments

Under current law, the Department is required to make payments to eligible schools in the state's choice programs and independent charter schools in September, based on current year enrollment estimates submitted by September 1st (i.e., 2017-18 enrollments are the basis for 2017-18 payments).

In the absence of a signed budget bill, the Department has no authority to increase the per pupil payment to schools in these programs above current law levels (the 2016-17 per pupil payment amounts). The budget bill must be signed into law by **September 5th** in order to ensure that the statutorily-required first payments to schools in these programs (made by the end of September) reflect the increases for the 2017-18 school year. The Department must accurately process payments for over 35,000 pupils in these programs both internally and through the Department of Administration.

As you know, public, private choice, and independent charter schools are nearing the start of their upcoming school years and finalizing their individual budgets with regard to staffing, purchasing services, etc. Many private schools in the state's three choice programs and SNSP will commence instruction in mid-August and will be doing so without knowing the specific per pupil payment they will be receiving for their students receiving vouchers. If the budget is signed into law after September 5th, the Department will be able to adjust payments to schools in these programs throughout the remainder of the 2017-18 school year, after the final 2017-18 per pupil payment amounts are known.

The annual indexing for the OE transfer payment uses the same method as for independent charter schools and private choice schools. While the OE transfer payments between districts is reconciled at the end of the school year in June, districts rely on the OE transfer amount in their budgeting processes. The Department is currently unable to inform school districts of the amount of this per pupil transfer payment for the 2017-18 school year (notification will occur soon after the budget bill is signed).

3. School District State General Aid Deductions for the MPCP/RPCP/WPCP/SNSP/ICSP

Under current law, the five programs identified above affect state general aid calculations for some school districts (i.e., MPCP/RPCP/WPCP/SNSP), or nearly all of the state's 422 school districts (ICSP). Simply put, the Department must know the final per pupil payment for each program in order to calculate the state general aid deduction for each affected school district, prior to finalizing the state general equalization aid calculation. The Department has no authority under current law to choose the basis for adjusting the per pupil payment amounts.

Thus, the Department must know the actual per pupil payment for the above programs as part of a signed budget, no later than **October 3rd**, in order to effectively incorporate the relevant deductions (MPCP and ICSP) for school districts as part of their state general aid certification, to be released on October 13th. In addition, districts must be notified of the aid deductions related to the RPCP, WPCP, and the SNSP to correctly adjust their revenue limit, via the allowable revenue limit exemptions. Districts depend on this information provided by the Department to accurately establish their allowable revenues under revenue limits, and to set their property tax levies, by November 1st, as required per state law.

If the budget is not signed into law by October 3rd, the Department will run the state general aid calculations (including deductions) and related revenue limit exemptions for each district, assuming no increase in the per pupil payment for these programs for the 2017-18 school year. If the budget is signed into law after that date and increases the per pupil payments for these programs, the state general fund will effectively need to cover these increases related to these sum sufficient appropriations, as the lapse

to the state’s general fund, derived from deductions applied to school districts’ aid payments, would be less than the state payments to choice and charter schools. This is consistent with past practice.

The table below shows the difference in state payments for the ICSP and the various choice programs for the 2017-18 school year, as estimated by the Department. The figures show the estimated total payments under these programs, with no increase to the per pupil payment compared to the Governor’s proposed budget, which included an increase in those per pupil payments of \$217:

Table 1. Estimated Payments, Independent Charter and Private Choice Schools
(Dollars in Millions)

Program	Estimated FTE Pupils (“incoming” only for RPCP and WPCP)	Per Pupil Payments at 2016-17 level	Per Pupil Payments with \$217 increase	Difference
MPCP*	27,680	\$161.5	\$166.2	\$4.7
RPCP	1,800	\$13.4	\$13.8	\$0.4
WPCP	3,900	\$29.2	\$30.1	\$0.9
SNSP	350	\$4.2	\$4.3	\$0.1
ICSP	7,600	\$62.2	\$63.9	\$1.7
Totals	41,330	\$270.5	\$278.3	\$7.8

*MPCP figures reflect state GPR share of 77.6% for 2017-18 school year per current law.

4. Categorical Aid

Although there is no statutory date on which Sparsity Aid payments must be made, the Department has previously notified districts if they were eligible for this state categorical aid in July or August, and made payments to eligible districts in mid-September. In the absence of a signed budget, the Department has not yet been able to inform districts of their eligibility or estimated payments. The Department will not be able to distribute the 2017-18 Sparsity Aid payments in mid-September unless the budget is signed by **August 31st**. Sufficient time is required for the Department to finalize calculations and make payments through the Department of Administration.

In addition, the Department is not able to inform school districts of the 2017-18 Per Pupil Aid amount until the budget is signed. While this aid is paid to districts annually in March, districts rely on the Per Pupil Aid payment amount in their budgeting processes. Every district receives Per Pupil Aid and it comprises a significant portion of school districts’ categorical aids, particularly with the increases that are proposed in the budget*. The Department cannot provide school districts with per pupil payment amount, but will inform districts of the actual figure soon after the budget is signed into law.

If you have questions or would like further information, please feel free to contact Brian Pahnke, Assistant State Superintendent for Finance and Management: (608) 267-9124, Brian.Pahnke@dpi.wi.gov; or Erin Fath, Budget Director, at (608) 266-2804, Erin.Fath@dpi.wi.gov.

* For FY17, the Per Pupil Aid appropriation (\$211 million) comprised 25 percent categorical aid appropriations (all funds); that figure rises to 37 percent and 45 percent in FY18 and FY19, respectively, under the Senate proposal.