



MEMORANDUM

LEGISLATIVE REFERENCE BUREAU

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To: The Steering and Rules Committee

From: John Ledvina – Fiscal Planning Specialist
Dana Zelazny – Legislative Fiscal Analyst - Lead

Date: June 10, 2016

Subject: CCFN 160017 - - Next Door Common Council Charter School
MPS Financial Impact Statement

SUMMARY

At the Steering and Rules Committee's request during its June 2, 2016, meeting, we reviewed the April 14, 2016, MPS Impact Statement for the proposed Next Door City Charter School. We found a number of discrepancies in assumptions, enrollment projections and calculations which require clarification regarding the Impact Statement's financial projections. Areas requiring clarification are identified below. It may be helpful in the future to request that an MPS Impact Statement be prepared by the Office of the Comptroller.

BACKGROUND

The Next Door Charter School, located at 2545 N. 29th Street, Milwaukee, Wisconsin 53210, has been chartered by the Milwaukee Public Schools to serve 166 (135 full-time equivalent or FTE) students in early childhood education (grades K4 through K5). Next Door has been chartered by MPS since 2006, and its current charter will expire in 2016.

Next Door is seeking a five-year charter under the auspices of the City of Milwaukee charter school authority. It proposes to add a second location (the former Northwest Hospital building at 5310 W. Capitol Drive, Milwaukee, Wisconsin 53216) and expand its total charter enrollment to 485 (371 FTE) K4 and K5 students. Next Door needs the City school charter because the current charter with MPS does not support its expanded enrollment. Next Door currently operates the Capitol Drive location as an independently-funded school not affiliated with Milwaukee Public Schools or the City of Milwaukee.

MPS IMPACT STATEMENT

City code provisions concerning charter schools were amended in 2015. Section 330-15-4, Code of Ordinances, requires the Charter School Review Committee (CSRC), when evaluating an application for a charter school, to make a written finding as to whether "the operation of the school or proposed school, when chartered by the city, will affect the resources available to students served by the Milwaukee public school system under the applicable state funding formula, and the nature of this effect." Next Door's application is the first to be subject to this rule, and thus the MPS Impact Statement presented to the Steering and Rules Committee on June 2nd, 2016, is the first impact statement to be prepared by the CSRC.

The MPS Impact Statement was submitted to the CSRC by Mr. Jarett Fields of the Institute for the Transformation of Learning (ITL) at Marquette University in his role as the Policy Analyst for

the CSRC. The MPS Impact Statement estimates the potential financial consequences to MPS if Next Door receives a City charter for its school.

To determine the accuracy of the MPS Impact Statement, we consulted with several people, including:

- Dr. Howard Fuller, Ph.D., Director of the Institute for the Transformation of Learning at Marquette University.
- Dr. William D. Flanders, Ph.D., Education Research Director at the Wisconsin Institute of Law and Liberty (WILL).
- Mr. C. J. Szafir, Vice President for Policy and Deputy Counsel, WILL.
- Mr. Robert Soldner, School Financial Services Director at the State of Wisconsin's Department of Public Instruction.
- Mr. Glenn Steinbrecher, Deputy City Comptroller.

As mentioned during the June 2nd Steering and Rules Committee meeting, the financial analysis that was the basis of Mr. Fields' MPS Impact Statement was actually prepared by Dr. Flanders of WILL. Dr. Flanders provided us with the electronic work papers that formed the basis of his analysis. We reviewed these documents, which were Excel worksheets pre-programmed by DPI to accept certain inputs and calculate estimated revenue limits in a sensitivity analysis based on school district enrollment.

“Scenarios” = School Locations

The MPS Impact Statement refers to two “scenarios”, which explain the incremental impacts of converting:

1. The existing MPS Charter School (grades K4-K5) on 29th Street, which has 166 (135 full-time equivalent) students, to a City charter school; and
2. The existing independently-funded K4 school on Capitol Drive to a City charter school and adding an additional grade (K5) for a projected enrollment of 319 (236 FTE) students.

Impact Statement Assumptions

In making calculations for the Impact Statement, Dr. Flanders made the following assumptions (in bold). Below is an explanation and assessment of each assumption.

1. **No change in tax revenue of the district.** MPS tax revenue from property tax levies has been stable for the last four years. This is a **valid** assumption.
2. **No change in the cost ceiling per member at the primary, secondary or tertiary level.** This factor refers to the equalization aid formula, which is calculated using school district data (number of students, shared costs and equalization valuations) from the prior year. There are three valuations used in the equalization formula that are applied to three different expenditure levels. As the three cost ceilings and corresponding valuations are set by statute, this is a **valid** assumption.
3. **The only enrollment change in MPS is the shift in students from the instrumentality charter to the City charter.** In general, enrollment at MPS has been declining, from 95,600 in 2004 to 75,568 in 2015 (-21%). Ongoing declining enrollment is a factor in a “Declining Enrollment Exemption” in the State’s revenue limit calculation. For the 2015-16 aid calculations, the three-year rolling average of declining enrollment at MPS resulted in a \$12,300,000 exemption in the revenue limit calculation. In assuming that the only

change in enrollment from 2016-17 through 2018-19 is the loss of Next Door students, the worksheet calculation reduced the declining enrollment exemption to \$177,167 by the 2018-19 school year. That **\$12,000,000 change may not be realistic** in light of the projected 485 Next Door students [166 (135 FTE) at North 29th and 319 (236 FTE) at W. Capitol] compared to MPS' 75,568 total enrollment.

4. **Students enrolled remain at the City charter school the entire year.** State funding is based on student enrollment as of the third Friday in September. Students can and do transfer to other schools or may be expelled mid-year. Some of these students may enroll at MPS schools. Transfer and expulsion rates for students at Next Door schools are **unknown**. This is a practical, **valid** assumption.
5. **No change in Computer Aid to MPS.** Since 1999, computers, software and other equipment have been exempt from property taxes in Wisconsin. This negatively impacts local property tax levies. Computer aid is State funding provided to school districts equal to the amount of property tax that would otherwise have been paid on exempt equipment. Since the amount of computer aid is based on the value of exempt computers in the district, conversion of Next Door from an MPS charter school to a City charter school would have no effect on computer aid granted to MPS. This is a **valid** assumption.
6. **No change in the per-pupil allotment for independent charter schools (\$8,000 for the purpose of this analysis).** The per-pupil allotment for independent charter schools for 2015-16 was \$8,079. There has been no indication that this figure will change in the coming years. This is a **valid** assumption.
7. **No change in DPI calculations.** DPI provided Dr. Flanders with worksheets for the 2015-16 school year that calculate a school district's estimated revenue limits and aid. The 2015-16 worksheets were used by Dr. Flanders to estimate revenue limits and aid for 2016-17 through 2018-19, forming the basis of the MPS impact calculations. It is **uncertain** whether these worksheets will remain unchanged for the next three years.
8. **No change in the adjustment for refunded or rescinded taxes.** State law requires local taxing jurisdictions to repay the Wisconsin Department of Revenue for property taxes that have been refunded to the property owner by the Department of Revenue, or rescinded, subject to certain conditions (s. 74.41, Wis. Stats.). Adjustments for refunded or rescinded taxes reduce MPS revenue from the property tax levy. As this arrangement is set by statute, this is a **valid** assumption.
9. **No change in federal policies affecting school year funding.** This is a **valid** assumption.
10. **All students attend MPS after the Next Door K5 year.** Parents of children graduating from Next Door schools can choose among independent charter schools, MPS charter schools, voucher schools and private schools for their children's subsequent education. The Department of Public Instructions reports that for 2015-16, 58% of former Next Door K5 students enrolled in MPS schools. **The assumption should be adjusted to that 58% proportion.**
11. **MPS nets approximately \$2,000 in revenue from non-instrumentality charter students by retaining the difference in the amount of per-pupil funding (~\$10,000) provided to MPS by the State and the amount of the allotment for tuition (~\$8,000 in**

future years) that MPS distributes to non-instrumentality charters. MPS has set the pass-through amount as being equal to the amount that these schools would receive as independent charter schools. For the 2016-2017 school year, MPS has budgeted \$8,188 per student in non-instrumentality charter schools. The remainder of the per-pupil funds are intended to reimburse MPS for administrative costs associated with its charter schools. The \$2,000 difference is informally referred to as “skim” in the analysis. This is a **valid** assumption.

MPS Impact Statement Calculations

In addition, we found that the MPS Impact Statement calculations included the following discrepancies:

1. **Undercounting of the change in students.** The “Scenario 1” analysis shows a loss of 84 MPS-chartered K5 students and 51 MPS-chartered K4 students in 2015-16 at the 29th Street school. For 2017-18, the analysis shows MPS gaining those 84 K5 students as they enter 1st grade. For 2018-19, the analysis shows MPS gaining an additional 51 students (the original K4 students entering 1st grade). However, the analysis does not show the loss to MPS of a new Next Door class of K4 students and new K5 students joining the school in 2017-18 and 2018-19. The same method of counting the gain or loss of potential MPS students was also made in the “Scenario 2” analysis of the Capitol Drive school.
2. **Declining Enrollment Exemption calculation error.** The “Declining Enrollment Exemption” in the worksheet’s State revenue limit calculation seems to change out of proportion to the relatively small decrease in enrollment resulting from the approval of the proposed Next Door City school charter. The three-year rolling average of declining enrollment at MPS resulted in a \$12,300,000 exemption in the revenue limit amount for the 2015-2016 school year. The Impact Statement spreadsheet calculation reduced the declining enrollment exemption to \$177,167 by the 2018-19 school year. That **\$12,000,000 change may not be realistic** in light of the projected 485 Next Door students [166 (135 FTE) at North 29th and 319 (236 FTE) at W. Capitol] compared to MPS’ 75,568 total enrollment. This is a **calculation error** that may influence the overall change in MPS revenue.
3. **Undercounting of enrollment.** In its prospectus, Next Door states it is currently chartered by MPS to enroll 135 FTE students in K4/K5. Next Door intends to expand its enrollment to a total of 371 FTE in K4/K5 under the proposed City school charter. Therefore, the location-based scenarios should have used 135 FTE at N. 29th Street for Scenario 1 and 236 FTE at W. Capitol Drive for Scenario 2. However, in the MPS Impact Statement the calculations are 135 FTEs for Scenario 1 and 160 FTEs for Scenario 2. In the actual worksheets, Dr. Flanders used 150 FTEs for Scenario 2. There is no explanation for this discrepancy.
4. **Insufficient impact term.** Since the proposed City school charter has a five-year term, an MPS Impact Statement presenting five-year and ten-year projections would have been helpful to indicate the potential contract-term and long-term impact on MPS enrollment and revenue. Consideration should be given to including such information in future MPS Impact Statements.