

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1626-02
Bill No.: SCS for SB 292
Subject: Elementary and Secondary Education; Department of Elementary and Secondary Education
Type: Original
Date: February 25, 2019

Bill Summary: This proposal modifies provisions relating to charter schools.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (Up to \$152,265)	\$0 or (Up to \$173,646)	\$0 or (Up to \$175,116)
Total Estimated Net Effect on General Revenue	\$0 or (Up to \$152,265)	\$0 or (Up to \$173,646)	\$0 or (Up to \$175,116)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 17 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 or 2.33 FTE	0 or 2.33 FTE	0 or 2.33 FTE
Total Estimated Net Effect on FTE	0 or 2.33 FTE	0 or 2.33 FTE	0 or 2.33 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	Unknown or (Unknown)	Unknown or (Unknown)	Unknown or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal will result in no cost to their organization.

In response to a similar version, SB 292 (2019), officials from the **Missouri Charter Public School Commission (MCPSC)** state this will not require any additional general revenue support than it already receives to comply with this proposal.

Oversight assumes DESE and the MCPSC can absorb the administration of this proposal with existing resources.

In response to a similar version, SB 292 (2019), officials from the **Carondelet Leadership Academy, University of Missouri System** and **University of Central Missouri** each assume the proposal will have no fiscal impact on their organizations.

Property Transfers

Officials from the **City of Kansas City, Missouri** state his proposal will have no fiscal impact on the City of Kansas City, Missouri. The language found in section 160.422.5 addresses Kansas City's concerns.

In response to a similar version, SB 292 (2019), officials from the **City of Columbia** and **St. Louis County** assume the proposal will have no fiscal impact on their organizations.

Officials from the **City Keytesville** assume the proposal will have a minor fiscal impact on their organization.

In response to a similar proposal, HB 581 (2019), officials from the **Monroe County Assessor** and **Greene County** each assume the proposal will have no fiscal impact on their respective organizations.

Expansion of Charter Schools

Officials from **Wellsville-Middletown R-1 School District** assume any expansion of charter schools dilutes the pool of public funds per-pupil instruction in that it calls for additional administrative and logistical costs, another set of principals, more custodians, more food service and more teachers for the same number of students. It also, statistically expands the number of low performing schools in that on average, charter schools perform at a lower level than do public schools on average.

ASSUMPTION (continued)

In response to a similar version, SB 292 (2019), officials from the **Springfield Public Schools** assume this proposal will cost \$16,537,500 as the district will see a drop in enrollment while not realizing the same ability to reduce expenditures for staffing, facilities, etc.

In response to a similar version, SB 292 (2019), officials from the **Jefferson City Public Schools** are uncertain how many students they may lose, but it appears it will be at least \$10,000 of lost revenue for every student that leaves our system without any corresponding reduction in expenditures. If enough students leave, there would be some reduction in staff. If the district loses 1 student from every grade level that would be a 13 students x \$10,000 which equals \$130,000.

In response to a similar version, SB 292 (2019), officials from **Sherwood-Cass R-VIII School District** assume this proposal could pull money away from the general education budget. This would require opening new schools, supplying the schools with the equipment and staff to run it, and without additional taxes would pull money away from what schools are currently getting. While it only directly affects certain areas of the state it could have a financial impact on everyone.

In response to a similar version, SB 292 (2019), officials from **Republic Schools** state it appears that \$125,000 may be allocated to each charter school. This in addition to the amount of money per student distributed to charter schools appears to be a sizeable financial impact. The sponsorship requirements appear to be prohibitive to high performing districts that would like to sponsor a charter school. Several high performing districts would like to have the opportunity to utilize these funds and flexibility provided to charter schools to open charter schools for "at risk" students that are later identified in proposal. The allocation of these funds to charter schools with lower proportional numbers of SPED, ELL, and low socioeconomic subgroups results in non-selective attendance centers utilizing comparable funds to meet the needs of subgroups that demand higher educational expenditures. FAPE for all students should be a component of each Charter School Commission Accountability.

In response to a similar proposal, HB 581 (2019), officials from **Raymore-Peculiar School District** state they have reviewed the proposed legislation to consider the potential financial impact of this legislation to the school district. Any such exercise, of course, requires making assumptions about the level of charter school participation that may take place in the future. Regardless, any family who might take advantage of such option will draw funds away from the local district.

ASSUMPTION (continued)

To calculate the amount of funds diverted from the district, we reviewed how charter schools are funded according to statutes. The calculation involves multiplying the State Adequacy Target (SAT) by the Weight Average Daily Attendance (WADA) and the Dollar Value Modifier (DVM). Added to this amount is the local effort generated by the local tax levy amount above the state performance levy of \$3.43. This calculation for Ray-Pec generates a per WADA amount of approximately \$7,787. As a district of 6,200 students, if 100 (or 1.6%) were to leave for a charter school, the total financial impact would be approximately \$778,000. This amount would increase each year as the SAT and/or local tax base increases.

Given that the district has approximately 400 classrooms, a loss of 100 students would not provide the opportunity to reduce expenses materially. Class sizes would go down by only a fraction of a student, which would not allow for a reduction in our most significant operating expense area (staffing). Operational savings would be nominal in such a situation without increasing class sizes district-wide and reducing staff accordingly. The potential loss of revenue in this example would represent the equivalent of 14 teacher positions.

Local voters determine the tax levy rate that provides the local effort financial support for our students. They also elect board members to provide oversight of the use of those local funds. Sending those funds to a charter school without approval or oversight of locally elected officials is problematic, and could significantly reduce the opportunities for the remaining students in the district because of the financial impact to the district.

Oversight notes that current statute (§160.400) restricts where charter schools can operate. Those areas include in the St. Louis City School District, Kansas City Public School District, and school districts with an unaccredited or provisionally accredited status. Oversight assumes this proposal expands provisions allowing a charter school to operate in any county with a charter form of government and in any city with a population greater than thirty thousand inhabitants.

Oversight notes the U.S. average charter school enrollment as a percentage of total fall enrollment in public schools is 5.7% according to the National Center for Education Statistics for the 2015-16 school year. If 5.7% of public school students transferred to charter schools, Oversight notes this could result in a transfer of approximately 22,001 in weighted average daily attendance (WADA) numbers from the school districts to charter schools which could result in a transfer of approximately \$149.6 million in state funds from impacted school districts to charter schools based on the transfer of WADA times the current state adequacy target of \$6,308 and adjusted for the dollar value modifier.

ASSUMPTION (continued)

Oversight notes this calculation does not include the amount of local revenues per WADA from the incidental and teachers' funds in excess of the performance levy. Also, these numbers do not include an impact to the Kansas City Public Schools and St. Louis City Public Schools as charter schools are already authorized. Additionally, Oversight excluded the Special School District of St. Louis County. Oversight will show an unknown cost to school districts and an unknown increase in revenue to charter schools.

Oversight notes if 20,001 WADA transfer from public school districts to charter schools, the savings to school districts is estimated \$254.2 million based on the average expenditure of affected school districts of \$11,556 per student (20,001 x \$11,556). However, Oversight notes some of the expenditures of the school district may be fixed costs (such as debt service payments and facility maintenance operations) and may not change as students transfer. Based on calculations from the National Public Education Financial Survey, Oversight estimated the fixed costs of school expenditures at 36% with the remaining 64% being variable costs. Of the \$11,556 in average expenditures per ADA, \$7,396 is estimated to be variable cost (\$11,556 * .64). Assuming fixed costs, if 20,001 transfer out of public schools and into charter schools, then the savings to local districts is estimated at \$147.9 million (20,001 * \$7,396).

Additionally schools may be subject to economies of scale suggesting that the savings generated per change in student may be less than the average cost per student. (For instance if one student transfers, the school may not be able to reduce fixed costs as noted above nor may it be able to reduce the instructional staff due to requirements such as limits on class size, etc.) Estimating the savings to the school districts would largely depend on circumstances of each individual school: the size of the school, the number of transferring students, presence of fixed costs and economies of scale. Oversight will show the savings to school districts as unknown.

Below is a list of potentially impacted school districts:

School District	Qualifying County or City	Student Population
Blue Springs R-IV	Jackson	14,576
Center 58	Jackson	2,630
Fort Osage R-I	Jackson	5,069
Grain Valley R-V	Jackson	4,410

Grandview C-4	Jackson	4,303
Hickman Mills C-1	Jackson	6,034
Independence 30	Jackson	15,243
Lee's Summit R-VII	Jackson	18,296
Lone Jack C-6	Jackson	657
Oak Grove R-VI	Jackson	2,010
Raytown C-2	Jackson	9,429
Crystal City 47	Jefferson	524
DeSoto 73	Jefferson	2,721
Dunklin R-V	Jefferson	1,588
Festus R-VI	Jefferson	2,985
Fox C-6	Jefferson	11,478
Grandview R-II	Jefferson	659
Hillsboro R-III	Jefferson	3,425
Jefferson Co. R-VII	Jefferson	1,027
Northwest R-I	Jefferson	6,271
Sunrise R-IX	Jefferson	308
Windsor C-1	Jefferson	3,016
Ft. Zumwalt R-II	St. Charles, O'Fallon	18,125
Francis Howell R-III	St. Charles, St. Peters	17,680
Orchard Farm R-V	St. Charles	2,055
St. Charles R-VI	St. Charles, St. Peters	4,987
Wentzville R-IV	St. Charles, O'Fallon	16,788
Affton 101	St. Louis	2,560

Bayless	St. Louis	1,723
Brentwood	St. Louis	753
Clayton	St. Louis	2,624
Ferguson-Florissant R-II	St. Louis	10,560
Hancock Place	St. Louis	1,520
Hazelwood	St. Louis	17,819
Jennings	St. Louis	2,557
Kirkwood R-VII	St. Louis	6,038
Ladue	St. Louis	4,148
Lindbergh Schools	St. Louis	6,934
Maplewood-Richmond Heights	St. Louis	1,476
Mehlville R-IX	St. Louis	10,432
Normandy Schools Collaborative	St. Louis	3,240
Parkway C-2	St. Louis, Ballwin, Chesterfield	17,902
Pattonville R-III	St. Louis	5,943
Ritenour	St. Louis	6,422
Riverview Gardens	St. Louis	5,557
Rockwood R-VI	St. Louis	21,201
Special School District	St. Louis	4,352
University City	St. Louis, University City	2,778
Valley Park	St. Louis	901
Webster Groves	St. Louis	4,619
Cape Girardeau School District	Cape Girardeau	4,224

Columbia 93 School District	Columbia	18,491
Jefferson City School District	Jefferson City	9,073
Joplin Schools	Joplin	7,778
Springfield R-XII	Springfield	25,778
St. Joseph School District	St. Joseph	11,647
Washington	Washington	4,141
Kansas City 33	Jackson	15,372
St. Louis City	St. Louis City	22,971

Oversight notes this is not comprehensive list of impacted districts. More districts could be impacted from the expansion of charter school operations depending on how the boundary lines of school districts lay relative to the county and city boundaries where charter schools are authorized to operate.

Charter School Audits

Officials from the **Office of the State Auditor (SAO)** assume this proposal would result in an additional 8 audits per year. An average audit requires 200 hours of senior auditor work and 200 hours of staff auditor work, which results in an 1,600 hour increase in audit workload. This will require 2 new FTEs, one staff auditor (\$37,996) and one senior auditor (\$43,396). Due to this large increase, the SAO also estimates a 1/3 increase in managing auditor FTE (\$22,830) to oversee these new audits.

This proposal will also increase travel costs. These numbers provide an estimate for what it would cost our office to send auditors to the charter school locations in St. Louis and Kansas City to conduct the audits required by this provision.

Oversight assumes Section §160.405.9 (3) (b) requires the charter school to submit an application which includes a financial audit performed by an independent third party which is paid for by the charter school. Oversight notes the SAO assumed, due to the reference to Chapter 29, that the SAO would still be required to perform the audits. Oversight will show the range of cost for performing the audits as \$0 (the audits are not performed by the state auditor) up to the costs noted by the SAO. Oversight included the cost of the 1/3 managing auditor FTE since costs were related to a promotion expenditure.

ASSUMPTION (continued)

Nonresident Transfers

Oversight notes currently nonresidents students are only able to transfer from unaccredited school districts. This proposal expands the ability of nonresident pupils to transfer to charter schools. Oversight assumes this proposal states that nonresident pupils are not counted for purposes of determining aid under subdivision (1) and (2) of subsection 3 and under subdivision (1) and (2) of subsection 2 of section 160.415. Based on DESE's response, Oversight assumes this would not reduce the enrollment of the resident district (as pupils enrolled in charter schools are included in the enrollment numbers of the resident school district) nor is it anticipated to reduce the ADA calculation as reported to DESE by the charter school rather it would alter the calculation of the aid payment to the charter school.

If 1% of students transferred from their district of residence to a charter school as a nonresident, Oversight notes those school districts would pay 100% of their per pupil expenditure to the charter school. Oversight estimates the cost to school districts (and the gain to charter schools) at \$53.8 million based on the current expenditure per student.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE FUND			
<u>Revenue</u> - SAO - payment by charter schools for audits performed §160.405.9	\$0 to Unknown up to \$152,265	\$0 to Unknown up to \$173,646	\$0 to Unknown up to \$175,116
<u>Cost</u> - SAO - staff audits of charter schools §160.405.9			
Personal Service	\$0 or (\$86,827)	\$0 or (\$105,234)	\$0 or (\$106,286)
Fringe Benefits	\$0 or (\$50,944)	\$0 or (\$61,451)	\$0 or (\$61,771)
Equipment and Expenses	<u>\$0 or (\$14,494)</u>	<u>\$0 or (\$6,961)</u>	<u>\$0 or (\$7,059)</u>
<u>Total Cost - SAO</u>	<u>\$0 or \$152,265</u>	<u>\$0 or (\$173,646)</u>	<u>\$0 or (\$175,116)</u>
FTE Change - SAO	0 or 2.33 FTE	0 or 2.33 FTE	0 or 2.33 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or (Up to <u>\$152,265</u>)	\$0 or (Up to <u>\$173,646</u>)	Unknown to (Up to <u>\$175,116</u>)
Estimated Net FTE Change for General Revenue	0 or 2.33 FTE	0 or 2.33 FTE	0 or 2.33 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Income</u> - to Charter Schools - increased funding for new charter schools §160.400	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Income</u> - to Charter Schools - increase in revenue for nonresident transfers §160.415	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - to Charter Schools - payment of the State Auditor for financial audits §160.405.9	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost</u> - to Public School Districts - payments to new charter schools §160.400	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Cost</u> - to Public School Districts - payments for transfer of resident pupils to nonresident charter schools §160.415	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Savings</u> - to Public School Districts - transfer of students out of the district	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Unknown or <u>(Unknown)</u>	Unknown or <u>(Unknown)</u>	Unknown or <u>(Unknown)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to charter schools.

CHARTER SCHOOLS (Section 160.400):

Under this act, charter schools may be operated in a charter county or in a city with a population greater than 30,000.

Charter schools may be operated in a school district that has been accredited without provisions, provided the charter school applicant submits a proposed charter to the school district for approval, along with evidence of community support for the operation of the charter school in the district. If the school board denies the charter school, the sponsor may appeal the decision to the Missouri Charter Public School Commission. The Commission may approve the charter application if it finds it more likely than not that there is community support for the charter school.

The school board of the district in any district that is sponsoring a charter school in a charter county is eligible to sponsor a charter school.

Procedures relating to changes in a school district's accreditation status that affect charter schools are repealed under this act.

If a charter school fails to receive a renewal of its charter after a three-year term, the sponsor of the charter school at the time of the failure of renewal shall not sponsor any new charter schools until the State Board of Education has completed an evaluation and received a determination of compliance with state law for all charter schools sponsored by the sponsor and meets the state standards of sponsorship.

UNDERPERFORMING CHARTER SCHOOLS (Section 160.404):

Under this act, a charter school will be classified as underperforming if the charter school has received scores demonstrating that the percentage of students who perform proficient and advanced on the annual statewide system of assessments in English language arts and mathematics in a charter school is lower than the average percentage of grade-level-equivalent students attending nonselective attendance centers in the school district in which the charter school is located who perform proficient and advanced in English language arts and mathematics.

A charter school will not be considered as underperforming if 50% or more of the school's

FISCAL DESCRIPTION (continued)

students were previously considered dropouts, as defined under current law, or the average rate of growth in English language arts and mathematics on the annual statewide system of assessments is higher than the average growth in English language arts and mathematics for grade-level-equivalent students attending nonselective attendance centers in the school district in which the charter school is located.

ESTABLISHING A CHARTER (Section 160.405):

Current law requires a person, group, or organization seeking to establish a charter school to submit the proposed charter to a sponsor. The charter shall include a legally binding performance contract that describes the obligations and responsibilities of the school and the sponsor and shall, under this act, address the term of the charter, which shall be five years and may be renewed for a five-year term. However, if a charter school underperforms for two of the three consecutive years immediately before a decision whether to renew the school's charter is made, such renewal shall only be for three years. If the charter school again underperforms for two years of the three-year term, the school's charter shall not be renewed.

This act also requires the charter to show evidence of community support for the charter school, for all charter schools in school districts accredited without provision.

Under current law, a charter school, per its charter, must be financially accountable. A charter school that receives local educational agency status must meet the requirements imposed by the Elementary and Secondary Education Act for audits of such agencies and comply with all federal audit requirements for charters with local educational agency status. Under this act, charter schools must make the results of such audits available on their website.

A charter school must also seek to ensure that the percentage of its students who perform proficient and advanced on the annual statewide system of assessments in English language arts and mathematics is equal to or higher than the average percentage of grade-level-equivalent students attending nonselective attendance centers in the school district in which the charter school is located who perform proficient and advanced in English language arts and mathematics.

A sponsor shall revoke a charter or take other appropriate remedial action, which may include placing the charter school on probationary status for no more than 24 months, at any time if the charter school underperforms for at least two years.

Current law requires a sponsor to confirm that each charter school they sponsor is in material

FISCAL DESCRIPTION (continued)

compliance and remains in material compliance with the charter and with statute. Under this act, the sponsor's renewal process of the charter school must consider if the charter school has underperformed for two of the three consecutive years immediately before a decision whether to renew the school's charter is made.

The sponsor of a charter school is required to submit a revised charter application to the State Board for review beginning August first during the year in which a charter is considered for renewal, which shall include a financial audit performed by an independent third party and be paid for by the charter school.

CHARTER SCHOOL ADMISSION (Section 160.410)

A charter school is required to enroll nonresident pupils who are residents of the state of Missouri, unless the pupil's enrollment will cause a resident pupil to be denied enrollment. Information a charter school must currently make available shall, according to the act, also be available on the charter school's website.

DISTRIBUTION OF STATE SCHOOL AID (Section 160.415):

If a charter school has one or more nonresident pupils, the nonresident pupils shall not be counted for purposes of determining the amount of aid. Each school district that has one or more of its resident pupils attending a charter school shall pay to the charter, for each pupil 100% of its average per-pupil expenditure excluding interest payments and grants.

A charter school that has declared itself as a local education agency shall, under current law, receive an annual amount set forth in statute. Under this act, if a charter school has one or more nonresident pupils, the charter school will receive payment from DESE in the amount set forth in current law. However, the nonresident pupils will not be counted for the purposes of determining state aid. Each school district that has one or more of its resident pupils attending a charter school that has declared itself as a local education agency as a nonresident pupil shall pay to the charter school, for each pupil, 100% of its average per-pupil expenditure excluding interest payments and grants.

Upon notice of the charter school's declaration of local education agency status, DESE shall reduce the payment made to the school district in which the charter school is located from any source by the amount specified in current law, and pay directly to the charter school the annual amount reduced from the school district's payment.

FISCAL DESCRIPTION (continued)

Under current law, a charter school may not charge tuition or impose fees that a school district is prohibited from charging or imposing, except that a charter school may receive tuition payments from districts in the same or an adjoining county for nonresident students who transfer to an approved charter school, and, under this act, payment from school districts as described above.
POLITICAL SUBDIVISIONS (Section 160.422)

Under this act, a political subdivision shall not adopt, enforce, impose, or administer an ordinance, local policy, or local resolution that prohibits property sold, leased, or transferred by the political subdivision from being used for any lawful education purpose by a charter school. A political subdivision may not impose, enforce, or apply any deed restriction that expressly, or by its operation, prohibits property sold, leased, or transferred by the political subdivision from being used for any lawful educational purpose by a charter school.

If a political subdivision offers property of the political subdivision for sale, lease, or rent, the political subdivision shall not refuse to sell, lease, or rent to a charter school solely because the charter school intends to use the property for an educational purpose

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of the State Auditor
Missouri Charter Public School Commission
St. Louis County
Carondelet Leadership Academy
University of Missouri System
University of Central Missouri
Jefferson City Public Schools
Sherwood-Cass R-VIII School District
Republic Schools
Springfield Public Schools
Raymore-Peculiar School District
City of Kansas City, Missouri
Wellsville-Middletown R-1 School District

SOURCES OF INFORMATION (continued)

City of Keytesville
Monroe County Assessor
City of Columbia
Greene County



Kyle Rieman
Director
February 25, 2019

Ross Strobe
Assistant Director
February 25, 2019