

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3565-01
Bill No.: SB 649
Subject: Children and Minors; Education, Elementary and Secondary; Elementary and Secondary Education, Department of; Teachers
Type: Original
Date: January 27, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

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 2021	FY 2022	FY 2023
*Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

*The \$0 may indicate costs, income and savings net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Elementary and Secondary Education, Charter Public School Commission, University of Central Missouri, and University of Missouri System** assume this proposal will have no direct fiscal impact.

Officials at the **Odessa R-VII** school district state any commitment to the expansion of charter schools and any associated public funding being diverted to the charter schools, will further deplete the state funding marked for public schools.

In response to a similar past proposal, SB 292 (2019), officials from **Wellsville-Middletown R-1 School District** assumed 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.

In response to a similar past proposal, SB 292 (2019), officials from the **Springfield Public Schools** assumed 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 past proposal, SB 292 (2019), officials from the **Jefferson City Public Schools** stated they 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 past proposal, SB 292 (2019), officials from **Sherwood-Cass R-VIII School District** assumed 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.

ASSUMPTION (continued)

In response to a similar past proposal, SB 292 (2019), officials from **Republic Schools** stated 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 past proposal, HB 581 (2019), officials from **Raymore-Peculiar School District** stated 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.

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.

ASSUMPTION (continued)

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.

Student Transfers to Charter Schools

Oversight notes §160.400 RSMo currently only allows charter schools to operate in the St. Louis City School District, Kansas City Public School District, and school districts with enrollment of 3,000 or more with an unaccredited or provisionally accredited status. This proposal would also allow charter schools in cities over 30,000 with a single school district, except any such district that is accredited without provisions by the state board of education and that has a resident pupil enrollment of less than three thousand.

Because of the difficulty of determining which districts this proposal applies to, **Oversight** will perform a simplified, overinclusive analysis that counts districts with 3,000 or more enrolled students, if they are in charter counties or cities with a population exceeding 30,000. According to information from the DESE website, this proposal would allow charters to open in the following districts:

NORMANDY SCHOOLS COLLABORATIVE FESTUS R-VI HILLSBORO R-III GRANDVIEW C-4 CAPE GIRARDEAU 63 LADUE GRAIN VALLEY R-V WEBSTER GROVES ST. CHARLES R-VI RIVERVIEW GARDENS FORT OSAGE R-I HICKMAN MILLS C-1	KIRKWOOD R-VII PATTONVILLE R-III RITENOUR NORTHWEST R-I LINDBERGH SCHOOLS JOPLIN SCHOOLS RAYTOWN C-2 JEFFERSON CITY FERGUSON-FLORISSANT R-II MEHLVILLE R-IX ST. JOSEPH FOX C-6	INDEPENDENCE 30 BLUE SPRINGS R-IV HAZELWOOD FRANCIS HOWELL R-III WENTZVILLE R-IV PARKWAY C-2 Ft. ZUMWALT R-II LEE'S SUMMIT R-VII LEE'S SUMMIT R-VII COLUMBIA 93 ROCKWOOD R-VI SPRINGFIELD R-XII
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Oversight notes that according the DESE, the overall average daily attendance for these school districts is 344,489. In total, they spent \$1,536,672,841 in state aid.

ASSUMPTION (continued)

Oversight also notes that 36% of the total number of students educated in St. Louis and Kansas City districts were educated in charter schools (23,384 charter ADA/(36,996 district ADA + 23,384 charter ADA)). Because of historical accreditation issues, this number is likely higher than the proportion of students that will likely enroll in the districts covered by this proposal. In 2016, NCES found that Arizona, one of the most permissive states for charters educated 16% of its students at charter schools, the highest statewide average in the nation. Oversight estimates that 16% of students in these districts will shift to charter schools assumed to open as a result of this proposal.

If these districts experienced a 16% shift of students from public to charters, 55,118 students would shift to charter schools (344,489 X .16). This would cause a (\$245,867,645) net direct fiscal impact from state aid to local school districts ((\$1,536,672,841/344,489 students) X 55,118 estimated charter students).

Oversight recognizes that this figure could be either low or high. This number is likely low, because it does not include the local effort approximation that DESE distributes to each charter school on the basis of a historical property tax valuation, and it does not include federal money distributed to charters. On the other hand, this number could be high, because it likely includes at least one city over 30,000 with more than one school district. Also, according to the Charter Public School commission, it is unlikely that charter schools would open for at least two years after implementation, and it is unlikely that charter schools would open in the same proportion in every district. The National Center for Education Statistics found that 6% of all students in America attended charter schools, but this number could be low as it includes states that allow no charters, and charter school laws vary across the nation. Because of this uncertainty, Oversight will show a \$0 to could exceed (\$245,867,645) net direct fiscal impact to local school districts for students enrolling in charter schools.

Furthermore, several school districts commented that this proposal would reduce the number of students they educate, but may not immediately reduce their fixed and variable costs proportionately, including buildings and staff.

Property Transfers to Charter Schools (Section 160.422)

In response to a similar proposal (SB 603), officials at **The City of Kansas City** stated “[t]his legislation will have a negative fiscal impact on the City of Kansas City, Missouri, of an indeterminate amount. The fiscal impact is dependent

ASSUMPTION (continued)

upon the use and improvements made to former school property acquired by the City. As

Subsection 160.422.4 would void the deed into the City from its inception, the City's ultimate goal of redeveloping the property is substantially chilled. For-profit lenders for redevelopment purposes wouldn't likely take the risk of losing their pledged collateral for the redevelopment loan; that collateral would be the former school property. Chilled redevelopment means the City would have increased maintenance costs for property that lies dormant and non-productive. As to former school property used for parks, the City could potentially lose its investment to improve such property to better serve the neighborhoods in which they are located. The nature and extent of improvements for parks purposes vary, but can be substantial.

Kansas City has entered into transactions with the Kansas City Public School District by which the City acquired properties, some for parks purposes, but some for other purposes such as redevelopment. There were conditions that were required to be satisfied, prior to the City's acquisition of the properties. For instance, there was a Special Warranty Deed that includes a Property Use Restriction requiring the City to obtain the school district's consent before the property is used for a public or private school for a period of approximately 20 years. The proposed Section 160.422 would appear to void the Special Warranty Deed into the City, but also nullify the City's obligations under the Property Use Restriction contained in the Special Warranty Deed mentioned above.”

Oversight has no information to the contrary regarding property costs to Kansas City, and will show an (unknown) impact on Kansas City and other possibly affected cities

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
<u>Income</u> - to Charter Schools - increased funding for new charter schools §160.400	\$0 to could exceed \$245,867,645	\$0 to could exceed \$245,867,645	\$0 to could exceed \$245,867,645
<u>Income</u> - to Charter Schools - increase in revenue for nonresident transfers §160.415	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Cost</u> - to Public School Districts - payments to new charter schools §160.400	0 to (could exceed \$245,867,645)	0 to (could exceed \$245,867,645)	0 to (could exceed \$245,867,645 0)
<u>Cost</u> - to Public School Districts - payments for transfer of resident pupils to nonresident charter schools §160.415	\$0 to (Unknown exceeding savings)	\$0 to (Unknown exceeding savings)	\$0 to (Unknown exceeding savings)
<u>Costs</u> - to Kansas City- property transfer limitations §160.422	(Unknown)	(Unknown)	(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	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

CHARTER SCHOOLS (§ 160.400):

Under this act, charter schools may operated in a school district located within a county with a charter form of government except any such district that is accredited without provisions by the state board of education and that has a resident pupil enrollment of less than three thousand, or in any municipality with a population greater than thirty thousand with only one school district, except any such district that is accredited without provisions by the state board of education and that has a resident pupil enrollment of less than three thousand.

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.

POLITICAL SUBDIVISIONS PROPERTY TRANSFER LIMITATIONS (§ 160.422)

Under this act, any city not within a county 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 city not within a county may not impose, enforce, or apply any deed restriction that expressly, or by its operation, prohibits property sold, leased, or transferred by the city not within a county from being used for any lawful educational purpose by a charter school.

If a city not within a county 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
Charter Public School Commission
University of Central Missouri
University of Missouri System
Odessa R-VII



Julie Morff
Director
January 27, 2020



Ross Strobe
Assistant Director
January 27, 2020