

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3777-01
Bill No.: SB 603
Subject: Boards, Commissions, Committees and Councils;
 Children and Minors; Education, Elementary and Secondary;
 Department of Elementary and Secondary Education; 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
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 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 14 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
State Auditor	0 to 2.33	0 to 2.33	0 to 2.33
Total Estimated Net Effect on FTE	0 to 2.33	0 to 2.33	0 to 2.33

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 possibility indicate costs, income and savings net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Missouri Charter Public School Commission (MCPSC)** state this proposal will not require any additional general revenue support than it already receives.

Officials at **The University of Central Missouri** and **University of Missouri** each assume this proposal will have no direct fiscal impact on their respective institutions.

Officials at the **City of Springfield** and **St. Louis County** each assume this proposal will have no direct fiscal impact on their local political subdivisions.

Officials at the **City of St. Charles School District** state the bill will transfer an undetermined amount of state dollars from the currently existing public school districts of this state to an also unknown number of new charter schools. While the intent of this bill is [to] have the money follow the child, this merely allows charter schools to be started in weak districts.

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** assume this proposal could pull money away from the general education budget.

ASSUMPTION (continued)

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 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

ASSUMPTION (continued)

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.

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 an unaccredited or provisionally accredited status. Oversight assumes this proposal would allow charter schools to operate in any county with a charter form of government, or in a city with a population greater than thirty thousand inhabitants. According to information from DESE, this proposal would allow charters to open in the following districts:

AFFTON 101	HAZELWOOD	ORCHARD FARM R-V
BAYLESS	HICKMAN MILLS C-1	PARKWAY C-2
BLUE SPRINGS R-IV	HILLSBORO R-III	PATTONVILLE R-III
BRENTWOOD	INDEPENDENCE 30	RAYTOWN C-2
CAPE GIRARDEAU 63	JEFFERSON CITY	RITENOUR
CENTER 58	JEFFERSON CO. R-VII	RIVERVIEW GARDENS
CLAYTON	JENNINGS	ROCKWOOD R-VI
COLUMBIA 93	JOPLIN SCHOOLS	SPRINGFIELD R-XII
CRYSTAL CITY 47	KIRKWOOD R-VII	ST. CHARLES R-VI
DESOTO 73	LADUE	ST. JOSEPH
DUNKLIN R-V	LEE'S SUMMIT R-VII	SUNRISE R-IX
FERGUSON-FLORISSANT R-II	LINDBERGH SCHOOLS	UNIVERSITY CITY
FESTUS R-VI	LEE'S SUMMIT R-VII	VALLEY PARK
FORT OSAGE R-I	LONE JACK C-6	WEBSTER GROVES
FORT ZUMWALT R-II	MAPLEWOOD-RICHMOND	WENTZVILLE R-IV
FOX C-6	HEIGHTS	WINDSOR C
FRANCIS HOWELL R-III	MEHLVILLE R-IX	
GRAIN VALLEY R-V	NORMANDY SCHOOLS	
GRANDVIEW C-4	COLLABORATIVE	
GRANDVIEW R-II	NORTHWEST R-I	
HANCOCK PLACE	OAK GROVE R-VI	

ASSUMPTION (continued)

Oversight notes that according to the DESE, the overall average daily attendance for these school districts is 376,161. In total, they spent \$1,680,758,690 in state aid.

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, 60,185 students would shift to charter schools (376,161 X .16). This would cause a (\$268,921,390) net direct fiscal impact from state aid to local school districts (((\$1,680,758,690/376,161 students) X 60,185 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, it does not include federal money distributed to charters, and it does not include nonresident students who might enroll. On the other hand, this number could be high, because 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 (\$268,921,390) 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)

Officials at **The City of Kansas City** state “[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

Charter School Audits (Section 160.405)

Officials at the **Office of the State Auditor (SAO)** estimate 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 [a] 1600 hour increase in audit workload. This will require 2 new FTEs for our office -- one staff auditor and one senior auditor. Due to their large increase, we also estimate a 1/3 increase in managing auditor FTE to oversee these new audits.” A Staff Auditor salary is \$37,966, a Senior Auditor salary is \$43,396, and a .33 Manager salary is \$19,025. This proposal would also increase travel costs, because the audits are across the state. The proposed legislation appears to have no direct fiscal impact.

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

ASSUMPTION (continued)

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.

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. This would likely increase the number of students attending charter schools, and show a (unknown) direct fiscal impact to public schools.

<u>FISCAL IMPACT - State</u>	FY 2021	FY 2022	FY 2023
<u>Government</u>	(10 Mo.)		
GENERAL REVENUE FUND			
<u>Revenue</u> - SAO §160.405.9 payment by charter schools for audits performed	\$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>
Total Cost - SAO	<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>)	 \$0 or (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 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 \$268,921,390	\$0 to could exceed \$268,921,390	\$0 to could exceed \$268,921,390
<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 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 to (could exceed \$268,921,390)	0 to (could exceed \$268,921,390)	0 to (could exceed \$268,921,390)
<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>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

This act modifies provisions relating to charter schools.

CHARTER SCHOOLS (§ 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 (§ 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 (§ 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.

DISTRIBUTION OF STATE SCHOOL AID (§ 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.

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.

FISCAL DESCRIPTION (continued)

POLITICAL SUBDIVISIONS (§ 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
Missouri Charter Public School Commission
Office of the State Auditor
Secretary of State
City of Springfield
City of St. Charles School District
City of Kansas City
St. Louis County



Julie Morff
Director
January 27, 2020



Ross Strope
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January 27, 2020