

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6096-01
Bill No.: HB 2247
Subject: Elementary and Secondary Education
Type: Original
Date: January 30, 2018

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	Unknown to (\$147,193)	Unknown to (\$167,551)	Unknown to (\$169,015)
Total Estimated Net Effect on General Revenue	Unknown to (\$147,193)	Unknown to (\$167,551)	Unknown to (\$169,015)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

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 1600 hour increase in audit workload. This will require 2 new FTEs for our office-- one staff auditor and one senior auditor. Due to this large increase, we also estimate a 1/3 increase in managing auditor FTE 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 the state auditor which is paid for by the charter school. Oversight will show the cost of performing the audits is as noted by the Office of the State Auditor. Oversight included the cost of the 1/3 managing auditor FTE since costs were related to a promotion expenditure. Oversight assumes the revenue generated from the charter schools paying for the financial audit is unknown.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal will have no fiscal impact on their organization. DESE defers to local school districts.

Officials from the **Wellsville-Middletown R-1 School District** assume this proposal has the potential of having a serious negative impact on any district in which a charter school opens, especially small school districts. It will dilute the pool of available resources per student by doubling the administrative and physical plant costs.

Officials from the **Raymore-Peculiar School District** assume for any student who leaves the district to attend a charter school, the district would lose approximately \$8,550 (90% of \$9,500 current operating expenditures). If 100 students (1.6 % of enrollment) would leave, the total impact would be \$855,000. 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).

ASSUMPTION (continued)

Officials from the **Pattonville School District** estimate that the loss of just 100 students would cost the district \$1.3 million and the loss of just 100 students out of 5,600 students would unlikely impact staffing needs but still cost the district \$1.3 million.

Officials from the **Summersville R2 School District** assume a probable negative impact.

Officials from the **Shell Knob #78 School District** assume the district would see a loss of state funds due to those funds being directed to charter schools in the state and the formula not being funded.

Oversight notes that current statutes (§160.400) restrict 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 removes provisions allowing a charter school to operate in a district that has been provisionally accredited. Oversight assumes this proposal would allow a charter school to operate in any school district in which at least one school building has underperformed on annual performance report for two of the last three years.

Oversight assumes this proposal establishes additional criteria for when a sponsor shall revoke a charter or take other remedial action. Oversight assumes this proposal establishes additional criteria for the renewal process for charter schools.

Oversight assumes this proposal allows nonresident pupils to enroll in a charter school unless it would cause a resident pupil to be denied.

Oversight assumes for nonresident pupils attending a charter school, each pupil's district of residence shall pay the charter school 90% of its average per pupil expenditure.

Oversight assumes, upon a charter school's declaration of local educational authority status, DESE shall reduce the payment made to the school district in which the charter school is located and pay directly to the charter school the annual amount reduced from the school district's payment.

Oversight cannot estimated the number students that would transfer from local school districts to charter schools as a result of this proposal. Oversight assumes any loss of revenue from a local district would be an increase in revenue to the charter school.

ASSUMPTION (continued)

Officials at the following school districts: Arcadia Valley R-2, Avilla R-13, Bakersfield, Belton, Benton County R-2, Bismark R-5, Bloomfield R-14, Blue Springs, Bolivar R-I, Bowling Green R-1, Branson, Brentwood, Bronaugh R-7, Campbell R-2, Carrollton R-7, Caruthersville, Central R-III, Chilhowee R-4, Chillicothe R-II, Clarkton C-4, Cole R-I, Columbia, Concordia R-2, Crawford County R-1, Crocker R-II, Delta C-7, East Carter R-2, Eldon R-I, Everton R-III, Fair Play, Fayette R-3, Forsyth R-3, Fox C-6, Fredericktown R-I, Fulton, Grain Valley, Hancock Place, Hannibal, Harrisonburg R-8, Harrisonville, Hillsboro R-3, Hollister R-5, Humansville R-4, Hurley R-1, Independence, Jefferson City, Kansas City Public Schools, Kearney R-1, Kennett #39, King City R-1, Kingston 42, Kirbyville R-VI, Kirksville R-III, Lee Summit, Leeton R-10, Lewis County C-1, Lincoln R-II, Lindbergh, Lonedell R-14, Macon County R-1, Malta Bend, Meville, Meramec Valley R-3, Mexico, Middle Grove C-1, Midway R-1, Milan C-2, Moberly, Monroe City R-I, Morgan County R-2, New Haven, Nixa, North Kansas City, North St. Francois Co. R-1, Northeast Nodaway R-5, Odessa R-VII, Oregon-Howell R-III, Orrick R-11, Osborn R-0, Parkway, Pettis County R-12, Pierce City, Plato R-5, Princeton R-5, Raytown, Reeds Springs R-IV, Renick R-5, Republic R-III, Richards R-V, Richland R-1, Richmond R-XVI, Riverview Gardens, Salisbury R-4, Sarcoxie R-2, Scotland County R-I, Sedalia, Seymour R-2, Sikeston, Silex, Smithville R-2, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, St. Charles, St. Elizabeth R-4, Sullivan, Valley R-6, Verona R-7, Warren County R-3, Warrensburg R-6, Waynesville, Webster Groves, Wentzville, West Plains, Westview C-6 and the Wright City R-2 school districts did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE FUND			
<u>Revenue</u> - SAO - payment by charter schools for audits performed §160.405.9	Unknown	Unknown	Unknown
<u>Cost</u> - SAO - staff audits of charter schools §160.405.9			
Personal Service	(\$86,827)	(\$105,234)	(\$106,286)
Fringe Benefits	(\$45,872)	(\$55,356)	(\$55,670)
Equipment and Benefits	(\$14,494)	(\$6,961)	(\$7,059)
<u>Total Cost</u> - SAO	<u>(\$147,193)</u>	<u>(\$167,551)</u>	<u>(\$169,015)</u>
FTE Change - SAO	2.33 FTE	2.33 FTE	2.33 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Unknown to <u>(\$147,193)</u>	Unknown to <u>(\$167,551)</u>	Unknown to <u>(\$169,015)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL SCHOOL DISTRICTS AND CHARTER SCHOOLS			
<u>Income</u> - Charter Schools - increased funding for new charter schools	Unknown	Unknown	Unknown
<u>Loss</u> - Public Schools - decreased funding due to payments to Charter Schools	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> - Charter Schools - payment of the State Auditor for financial audits §160.405.9	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS AND CHARTER SCHOOLS	<u>(Unknown)</u>	<u>(Unknown)</u>	<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 bill changes the law regarding charter schools. The bill removes provisions authorizing a charter school to operate in a school district that has been classified as provisionally accredited. Instead, a charter school may operate in any school district in which at least one school has received an annual performance report score of 60% or less for two of the three most recent reports available when the charter school applies to open a school. A charter school opening in such a district shall offer only grade levels consistent with the grade levels offered by the school building that underperformed. A charter school opened under this provision shall give a preference for admission of resident pupils who reside in the attendance area of any school building that underperformed. The charter school may continue to operate regardless of any improvement in the annual performance report scores in the district (Section 160.400, RSMo).

This bill establishes a performance standard under which a charter school is underperforming if the:

- (1) Percentage of the charter school's students who perform proficient and advanced on the annual statewide system of assessments in English language arts and mathematics is lower than the average percentage of grade-level-equivalent students in nonselective school buildings in the school district in which it is located who perform proficient and advanced in English language arts and mathematics; or
- (2) Average rate of growth in English language arts and mathematics on the annual statewide system of assessments based on a value-added model for the charter school's students is lower than the average rate of growth for grade-level-equivalent students in nonselective school buildings in the school district in which the charter school is located (Section 160.405).

If a charter school, other than one in which 50% or more of the school's students were previously considered dropouts, underperforms for at least two years the charter school's sponsor shall revoke the charter or take other remedial action, which may include a probationary period (160.405).

FISCAL DESCRIPTION (continued)

A sponsor's renewal process for a charter school, other than one in which 50% or more of the school's students were previously considered dropouts, shall consider if the school met the performance standard in two of the three consecutive years immediately before the renewal decision is made. If such a charter school did not meet the standard in that period, any renewal granted shall be for only a three-year term. If the school again fails to meet the standard for two years of the three-year term, the school's charter shall not be renewed (Section 160.405).

Any sponsor of a charter school that failed to receive renewal of its charter after the three-year term shall not sponsor any new charter schools until the State Board of Education has determined that the sponsor was in compliance with all laws regarding charter schools for any charter school it sponsored at the time a charter school failed to receive such renewal (Section 160.400).

The bill also requires all members of the governing board of a charter school to be Missouri income taxpayers, except that members serving as of August 28, 2018 may serve the remainder of their terms regardless of that requirement (Section 160.400).

The bill also changes the law regarding how state aid and tuition are determined, as specified in the bill (Section 160.415).

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

Office of the State Auditor
Department of Elementary and Secondary Education
Wellsville-Middletown R-1 School District
Raymore-Peculiar School District

SOURCES OF INFORMATION (continued)

Pattonville School District
Summersville R2 School District
Shell Knob #78 School District

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director
January 30, 2018