

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0736-01
Bill No.: HB 581
Subject: Elementary and Secondary Education
Type: Original
Date: February 4, 2019

Bill Summary: This proposal changes 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 13 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.

Property Transfers

Officials from the **City of Kansas City, Missouri** assume this proposal will have a negative fiscal impact on the City of an indeterminate amount. 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 legislation would appear to nullify the City's obligations under the Property Use Restriction contained in the Special Warranty Deed mentioned above.

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

Officials from the **Monroe County Assessor, City of Columbia** 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 proposal that facilitates the establishment of charter schools will have a negative fiscal impact on all public schools in the state.

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.

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

ASSUMPTION (continued)

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 or 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.

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

ASSUMPTION (continued)

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 district 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. Oversight assumes the revenue generated from the charter schools paying the SAO for the financial audit is unknown but would not exceed the cost of the audit, but would sufficiently cover the SAO costs to net to an impact of less than \$100,000.

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 average daily attendance as reported to the school district of residence rather it would alter the calculation of the aid payment to the charter school.

Oversight notes those school districts would pay 100% of their average 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</u> - 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 \$152,265)	\$0 or (Up to \$173,646)	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>Loss</u> - local political subdivisions - loss of revenue due to inability to acquire restricted property §67.139	\$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	<u>Unknown or (Unknown)</u>	<u>Unknown or (Unknown)</u>	<u>Unknown 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 bill changes provisions relating to charter schools.

The bill restricts a political subdivision from targeting a charter school with an ordinance or policy that limits the acquisition or use of property by a charter school or for educational purposes (Section 67.139, RSMo).

This bill expands where a charter school may be established to include;

- (1) Any county with a charter form of government;
- (2) Any city with a population greater than 30,000; or
- (3) Any school district accredited without provisions.

Currently, a charter school is authorized to operate in a school district that has been classified as provisionally accredited. This bill allows any school district to establish a charter school with community support, as long as the school board of the district approves and agrees to act as the sponsor.

If the school board denies a proposal, the charter school may appeal to the Missouri Charter Public School Commission which may approve and sponsor the charter school if sufficient community support exists.

The bill removes provisions relating to "workplace charter schools."

Any sponsor of a charter school that fails 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 for any charter school it sponsored at the time a charter school failed to receive renewal (Section 160.400).

This bill states that an underperforming school includes those in which the 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 district in which it is located who perform proficient and advanced in English language arts and mathematics.

A charter school is not considered underperforming if the average rate of growth in English language arts and mathematics on the annual statewide assessment is higher than the average rate of growth for grade-level-equivalent students in the school district or is comprised of high risk students of which 50% or more were previously considered dropouts (Section 160.404).

FISCAL DESCRIPTION (continued)

This bill allows a charter school to renew for a five-year term. 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 the 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).

This bill provides that a nonresident student may enroll in a charter school, but may not cause a resident student to be denied admission.

The bill also specifies information that a charter school must publish on its website (Section 160.410).

This bill distinguishes the funding for a charter school that is not declared a local educational agency from those that are. The bill further changes the law regarding how state aid and tuition are determined for each, 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

Department of Elementary and Secondary Education
Office of the State Auditor
Raymore-Peculiar School District
City of Kansas City, Missouri
Wellsville-Middletown R-1 School District
City of Keytesville

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SOURCES OF INFORMATION (continued)

Monroe County Assessor
City of Columbia
Greene County



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February 4, 2019

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February 4, 2019