

Colorado Legislative Council Staff
**STATE and LOCAL
 FISCAL IMPACT**

Drafting Number: LLS 04-0149
Prime Sponsor(s): Rep. Carroll
 Sen. Groff

Date: February 15, 2004
Bill Status: House Education
Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING THE AUTHORIZATION OF INSTITUTE CHARTER SCHOOLS BY THE STATE CHARTER SCHOOL INSTITUTE.

Fiscal Impact Summary	FY 2004/05	FY 2005/2006	FY 2006/2007
State Revenues			
General Fund			
Cash Fund - State Charter School Institute Fund	\$292,353	\$608,080	\$1,264,813
Cash Fund Exempt (gifts, grants, donations)*	150,000		
State Expenditures			
General Fund**	\$168,528	\$240,860	\$312,109
Cash Fund - State Charter School Institute Fund	292,353	608,080	1,264,813
Cash Fund Exempt - SCSi Fund	150,000		
Cash Fund Exempt - Department of Law	5,000	5,000	5,000
FTE Position Change	2.0 FTE	3.0 FTE	4.0 FTE
Other State Impact: None			
Effective Date: July 1, 2004			
Appropriation Summary for FY 2004/2005:			
Department of Education - \$168,528 General Fund and 2.0 FTE; \$292,353 Cash Fund; \$150,000 CFE			
Department of Law - \$5,000 Cash Fund Exempt			
School District Impact: Moneys that would have otherwise been allocated to school districts and school district charter schools will be withheld from affected districts and distributed to the State Charter School Institute for allocation to institute charter schools and to cover overhead of the institute. The reduction in students will result in a corresponding reduction in school district expenses.			

**It is assumed that \$150,000 in donations will be provided to the State Charter School Institute Fund shortly after the effective date of the bill.*

***Of this amount, \$5,000 CFE will be appropriated to the Department of Law.*

Summary of Legislation

This bill establishes the State Charter School Institute as an independent agency in the Department of Education. The institute is authorized to:

- review institute charter school applications and assist in the establishment of institute charter schools throughout the state;

- assist in the conversion of a school district charter school to an institute charter school;
- approve or deny institute charter school applications and revoke, renew, or refuse to renew institute charter school contracts; and
- monitor the operations of institute charter schools and the academic achievement of students attending institute charter schools.

The bill creates a nine-member Institute Board to oversee the operations of the State Charter School Institute. The powers of the board are described in the bill. The bill states that the institute and institute charter schools are to be deemed part of the thorough and uniform system of free public schools in the state, but that the institute is not to be deemed a school district.

The bill creates the State Charter School Institute Fund in the State Treasury. Money in the fund would be subject to annual appropriation by the General Assembly to the institute to offset the institute's actual and reasonable costs incurred in implementing the bill. The institute is authorized to receive and expend gifts, grants, and donations. The State Charter School Institute shall not be obligated to commence operations necessary to receive applications until such time as there is at least \$50,000 in the fund, whether received from gifts, grants, donations, or other sources. In addition, the institute would not be obligated to commence review of applications actually received until the balance in the fund reaches at least \$150,000.

The bill allows a school district to retain exclusive authority to authorize charter schools within its boundaries if the school district meets criteria that demonstrate to the State Board of Education a commitment to, and oversight of, charter schools. An institute charter school may be located within a school district's boundaries only if the school district has not retained exclusive authority to authorize charter schools.

The bill adjusts school district funding based on the percentage of the pupil enrollment eligible for free lunch in an institute charter school or in a charter school authorized by a school district that has retained exclusive authority to authorize charter schools. The bill creates a graduated reimbursement to school districts that have retained exclusive authority to authorize charter schools for the direct costs of authorizing charter schools based on the percentage of the district's funded pupil count that is enrolled in charter schools.

An appeal to the State Board of Education of an Institute Board decision to deny, revoke, or not renew an institute charter would be permitted. The State Board may reverse the Institute Board's decision if it finds the decision was contrary to the best interests of the pupils or the community.

Each institute charter school would annually certify the number of pupils enrolled in the institute charter school to the State Board of Education and to the State Charter School Institute. The Department of Education would withhold a portion of the state share of equalization funding from the school district where the institute charter school is located and to forward the withheld amount to the institute charter school.

State Revenues

The State Charter School Institute shall not be obligated to commence operations necessary to receive applications until such time as there is at least \$50,000 in the fund, and would not be obligated to commence review of applications actually received until the balance in the fund reaches at least \$150,000, whether received from gifts, grants, donations, or other sources. It is assumed that \$150,000 in donations will be received shortly after the bill becomes effective on July 1, 2004. This will provide the "seed money" for the program to commence.

General Fund Transfer. The bill states that for each institute charter school, the Department of Education shall withhold from the state equalization payments of the institute charter school's accounting district an amount equal to 100 percent of the adjusted per pupil revenues multiplied by the number of pupils enrolled in the institute charter school. The institute would retain 3.0 percent of the amount withheld to cover the actual costs incurred by the institute in providing administration, oversight, and management services to the institute charter school. The institute charter school may also contract with the institute for additional services. The remaining 97 percent would be directed to institute charter schools.

It is assumed that applications for institute charter schools received in July, 2004, will be able to begin operations during the 2004-05 academic year. The amount of moneys to be retained by the State Charter School Institute (3.0 percent of the funds that would otherwise be distributed to institute charter schools) is projected to be \$292,353 in FY 2004-05, \$608,080 in FY 2005-06, and \$1,264,813 in FY 2006-07. This estimate is based on the following assumptions:

- that five institute charter school applications will be approved for initial operation during the 2004-05 academic year, an additional five institute charter schools will be approved for the 2005-06 academic year, and applications for an additional ten institute charter schools will be authorized for the 2006-07 academic year;
- the average number of pupils per state charter school will be comparable to district charter schools at 318 students per school;
- the annual increase for per pupil funding will be 4.0 percent per year; and
- the state average per pupil revenue of \$6,129 in FY 2004-05, \$6,374 in FY 2005-06, and \$6,629 in FY 2006-07 will be used to fund institute charter schools; and
- the Department of Education will withhold 3.0 percent of the per pupil revenue annually to cover the administrative costs of the State Charter School Institute.

Table 1 summarizes the funds withheld for operation of the State Charter School Institute in the Department of Education, and donated source revenue attributable to HB04-1362.

Table 1. Estimate of Revenue Required for Operation of the State Charter School Institute

	FY 2004-05	FY 2005-06	FY 2006-07
Number of Institute Charter School Applications	5	5	10
Number of Pupils Per Institute Charter School	318	318	318
Cumulative Number of Schools Opened	5	10	20
Cumulative Number of Students Served	1,590	3,180	6,360
State Average Per Pupil Revenue	\$6,129	\$6,374	\$6,629
Total Program Funding for Institute Charter Schools	\$9,745,110	\$20,269,320	\$42,160,440
GF Transfer to the State Charter School Institute CF (3% Withholding from Per Pupil Revenue)	\$292,353	\$608,080	\$1,264,813
GF Allocation to Institute Charter Schools	\$9,452,757	\$19,661,240	\$40,895,627
Gifts, Grants, and Donations (Cash Fund Exempt)	\$150,000	0	0
Total Revenue to the State Charter School Institute Fund	\$442,353	\$608,080	\$1,264,813

State Expenditures

State Charter School Institute. The Department of Education is authorized to withhold 3.0 percent of the funds that would otherwise be distributed to institute charter schools. The is projected to be \$292,353 in FY 2004-05, \$608,080 in FY 2005-06, and \$1,264,813 in FY 2006-07. In addition, \$150,000 in donated funds is anticipated in FY 2004-05 prior to commencement of operations of the institute.

Department of Education Administrative Expenses. The Department of Education will experience additional administrative expenses in several areas. For example, the Public School Finance Unit will be affected by the increase in the number of schools. The unit currently collects annual financial reports via bound documents as well as through the Automated Data Exchange electronic data submission of audited financial data. Training and technical assistance would be necessary to assist each institute charter school in their required reporting format. Additionally, data collection responsibilities for charter school capital construction needs would be increased and tracking of the funding withheld from each district on behalf of the pupils attending Institute Charter Schools would be necessary. Workload of the department's auditing staff would also be impacted due to increased site work required.

The Student Assessment Unit will be responsible for supporting each Institute Charter School as an independent unit. This will require additional staff support. Additionally, Institute Charter Schools will require staff support for training, assessment data functions, and overall assessment coordination and management support. The costs will occur when the number of institute charter schools reaches 20.

In total, the Department of Education will require FTE increases in the charter school unit (0.5 FTE in FY 2004-05, increasing to 1.0 FTE in FY 2005-06), accreditation (0.5 FTE in FY 2004-

05, increasing to 1.0 FTE in FY 2005-06), accounting (1.0 FTE beginning in FY 2004-05), and special education (1.0 FTE beginning in FY 2006-07).

Department of Law. The State Board of Education will have additional duties, review activities, and appeal processes concerning its power to grant to a local board of education the exclusive authority to authorize charter schools within the geographic boundaries of the school district. The State Board of Education will require services provided by the Attorney General's office, estimated to be \$5,000 annually beginning in FY 2004-05.

Expenditure Summary. Table 2 identifies the projected General Fund administrative expenses required for the Department of Education.

**Table 2. Projected Administrative Expenses for the Department of Education
FY 2004-05 through FY 2006-07**

	FY 2004-05	FY 2005-06	FY 2006-07
Personal Services			
Charter School Unit (0.5/1.0/1.0 FTE)	\$35,000	\$70,000	\$70,000
Accreditation (0.5/1.0/1.0 FTE)	40,000	80,000	80,000
Accountant/Auditor (1.0/1.0/1.0 FTE)	60,000	60,000	60,000
Special Education (0/0/1.0 FTE)			60,000
Personal Services Subtotal	<u>\$135,000</u>	<u>\$210,000</u>	<u>\$270,000</u>
PERA (@ 10.15%)	13,703	21,315	27,405
Medicare (@ 1.45%)	1,958	3,045	3,915
Operating Expenses	1,500	1,500	2,000
Computers	4,992		1,664
Office Furniture	6,375		2,125
Legal Fees (Dept. of Law)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total	<u>\$168,528</u>	<u>\$240,860</u>	<u>\$312,109</u>
Total FTE Required	2.0 FTE	3.0 FTE	4.0 FTE

Expenditures Not Included

Pursuant to the Joint Budget Committee's budget policies, the following expenditures have not been included in this fiscal note:

- health and life insurance costs;
- short-term disability costs;
- inflationary cost factors;
- leased space; and
- indirect costs.

School District Impact

Moneys that would have otherwise been allocated to school districts and school district charter schools will be withheld from affected districts and distributed to the State Charter School Institute for allocation to institute charter schools and to cover overhead of the institute. The reduction in students will result in a corresponding reduction in school district expenses.

State Appropriations

The fiscal note implies that the Department of Education will require a General Fund appropriation in the amount of \$168,528 and 2.0 FTE, a Cash Fund appropriation in the amount of \$292,353, and a Cash Fund Exempt appropriation in the amount of \$150,000 in FY 2004-05 in order to implement the provisions of the bill. From the General Fund appropriation to the Department of Education, a cash fund exempt appropriation in the amount of \$5,000 will be required for the Department of Law.

Departments Contacted

Education