

Colorado Legislative Council Staff
STATE and LOCAL
REVISED FISCAL IMPACT
 (replaces fiscal impact dated February 15, 2004)

Drafting Number: LLS 04-0149	Date: March 12, 2004
Prime Sponsor(s): Rep. Carroll Sen. Groff	Bill Status: House Appropriations
	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 Exempt (gifts, grants, donations)*	\$150,000		
State Expenditures			
General Fund**			
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 - \$150,000 CFE (State Charter School Institute Fund)			
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. A portion will be withheld by the Department of Education to cover administrative expenses, and a portion will be retained by the State Charter School Institute to cover administrative expenses. The remainder would be allocated to institute charter schools. The reduction in school district enrollment 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.*

***The bill redistributes General Fund dollars. Of the money withheld, 5.0 percent will be retained by the Department of Education (2.0 percent for their administrative expenses and 3.0 percent for the administrative expenses of the State Charter School Institute). The remaining 95.0 percent would be allocated to institute charter schools. See Table 1 for a further explanation. In addition, of the amount withheld by the Department of Education, \$5,000 CFE will be appropriated to the Department of Law.*

Summary of Legislation

As amended in the House Education Committee, 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 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. As amended, the Department would retain up to 2.0 percent of the amount withheld as reimbursement for the reasonable and necessary costs of the Department to implement the bill. The State Charter School Institute would retain up to 3.0 percent for its administrative expenses. The remaining 95.0 percent would be available for distribution to institute charter schools.

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 Withholding. 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 Department of Education would forward to the institute the amount withheld minus an amount not to exceed 2.0 percent of the amount withheld to reimburse the Department of Education for the reasonable and necessary costs to the department to implement the provisions of the bill. 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 95 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 Department of Education (2.0 percent of the amount withheld) is projected to be \$194,902 in FY 2004-05, \$400,680 in FY 2005-06, and \$832,651 in FY 2006-07. The State Charter School Institute would withhold 3.0 percent of the funds, estimated to be \$292,353 in FY 2004-05, \$601,020 in FY 2005-06, and \$1,248,977 in FY 2006-07. These estimates are 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; and
- the state average per pupil revenue of \$6,129 in FY 2004-05, \$6,300 in FY 2005-06, and \$6,546 in FY 2006-07 will be used to fund institute charter schools; and
- the Department of Education will withhold 2.0 percent of the per pupil revenue annually to cover the Department's administrative costs, and the State Charter School

Institute will withhold 3.0 percent of the per pupil revenue annually to cover its administrative costs. The remaining 95 percent will be available to institute charter schools.

Table 1 summarizes the projected revenue to the State Charter School Institute Fund within the Department of Education from donated sources and the amount that the Department would be authorized to withhold for its administrative expenses and for the administrative expenses of the State Charter School Institute for FY 2004-05 through FY 2006-07.

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
General Fund Moneys Withheld by CDE			
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	\$6,300	\$6,546
GF Money Withheld for CDE Expenses (up to 2.0%)	\$194,902	\$400,680	\$832,651
GF Money Withheld for Institute Expenses (up to 3.0%)	292,354	601,020	1,248,977
GF Money for Allocation to Institute Charter Schools	<u>9,257,854</u>	<u>19,032,300</u>	<u>39,550,932</u>
Total GF Money Withheld	\$9,745,110	\$20,034,000	\$41,632,560
Gifts, Grants, and Donations (Cash Fund Exempt)	\$150,000	0	0
Summary of Revenue Available for Administration			
Total Available for CDE Administration	\$194,902	\$400,680	\$832,651
Total Available for Institute Administration	442,354	601,020	1,248,977

State Expenditures

State Charter School Institute Administrative Expenses. The Department of Education is authorized to withhold 3.0 percent of the funds that would otherwise be distributed to institute charter schools. The amount is projected to be \$292,353 in FY 2004-05, \$601,020 in FY 2005-06, and \$1,248,977 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. As shown in Table 1 above, the Department of Education is authorized to retain up to 2.0 percent of the amount withheld from state equalization payments for Institute Charter Schools. The actual amount required by the Department of Education for administration of the program has not been determined, however, 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 minimum 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	\$135,000	\$210,000	\$270,000
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)	5,000	5,000	5,000
Total	\$168,528	\$240,860	\$312,109
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 Cash Fund Exempt appropriation from the State Charter School Institute Fund in the amount of \$150,000 in FY 2004-05 in order to implement the provisions of the bill. In addition, from the General Fund moneys withheld by 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