

Colorado Legislative Council Staff

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 04-0027
Prime Sponsor(s): Rep. King
 Sen. Andrews

Date: January 18, 2004
Bill Status: House Education
Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING CHARTER SCHOOLS, AND, IN CONNECTION THEREWITH, PROVIDING FOR THE CREATION OF STATE CHARTER SCHOOLS.

Fiscal Impact Summary	FY 2004/2005	FY 2005/2006
State Revenues		
General Fund		
Cash Fund - State Charter School Cash Fund*	\$587,256	\$1,213,491
State Expenditures		
General Fund		
Cash Fund - State Charter School Cash Fund	587,256	1,213,491
FTE Position Change	0.0 FTE	0.0 FTE
Other State Impact: Future TABOR Impact		
Effective Date: Upon signature of the Governor		
Appropriation Summary for FY 2004/2005: Department of Education \$587,256 Cash Fund		
School District Impact: Moneys that would have otherwise been allocated to school districts will be withheld from affected districts and distributed directly to state charter schools. The reduction in students will result in a corresponding reduction in school district expenses.		

**Of the amount credited to the fund, \$487,256 in FY 2004-05, and \$1,013,491 in FY 2005-06 will be withheld from the General Fund, School Finance moneys that would otherwise be distributed to the school districts where the state charter schools are located.*

Summary of Legislation

This bill authorizes the creation of state charter schools under certain circumstances. A state charter school would be a public school of the state that operates under a charter contract between the State Board of Education and the state charter school. It is not a school of a school district and is under the general supervision of the state board. The bill amends the "Charter Schools Act" as necessary to distinguish between district charter schools and state charter schools.

State charter schools would be authorized to join a board of cooperative services (BOCES) or, in association with other state charter schools, school districts, or institutions of higher education, to form a BOCES. The specific contents of an application for a state charter school are identified in

the bill. Furthermore, the bill makes changes in the time line for a local school board's review and approval of charter applications.

A charter school applicant would be required to provide notice of appeal within 15 days after the local board's decision. A person who files an appeal with intent to apply for a state charter would pay an appeal fee in an amount set by rule of the state board, not to exceed \$5,000. A charter applicant would submit the application to the State Board of Education if the local board denies the application on remand from the State Board or fails to complete the charter contract within 45 days, so long as the charter applicant previously gave notice of the intent to apply for a state charter. The charter applicant would pay an application fee in an amount set by rule of the State Board, not to exceed \$15,000. If a charter applicant submits the application to the State Board, the bill requires the State Board to approve the charter application and requires the State Board and the charter applicant to complete the state charter contract within 45 days after submittal. At any time after completion of a state charter contract, the bill allows the State Board, the state charter school, and the school district that originally denied the charter application to agree to convert the state charter school to a district charter school.

The bill allows a district charter school, with the approval of the chartering district, to submit to the State Board an application for conversion from a district charter school to a state charter school. The district charter school would pay a conversion application fee in an amount set by rule of the State Board, not to exceed \$15,000. The district charter school and the chartering district would enter into an agreement regarding issues arising as a result of the conversion.

If a charter applicant or a conversion applicant and the State Board are unable to complete the state charter contract within 45 days, the bill requires the parties to participate in alternative dispute resolution. The State Board would appoint an advisory committee to assist in reviewing appeals and applications for conversion and make recommendations to the State Board concerning approval of state charter applications and state charter conversions. The bill specifies that a state charter school is under the general supervision of the State Board, is subject to accreditation, and is a local education agency. The State Board would have the authority to direct the Department of Education to provide necessary administration, oversight, and management services to a state charter school or to contract with a third party to provide the services. The bill encourages the Department of Education to apply for federal funds and to seek and accept gifts, grants, and donations to offset the costs incurred. The State Charter School Cash Fund would be created in the State Treasury. The Department of Education would be authorized to withhold up to 5.0 percent of the funding payable to the state charter school to offset the costs incurred in administering the program or for the costs incurred to contract with a third party. Any portion of the amount withheld remaining in the fund at the end of a fiscal year would remain in the fund and would not revert to the state General Fund.

The bill clarifies that the district charter contract between a district charter school and the authorizing school district shall provide funding to the district charter school in an amount of 100 percent of the district per pupil revenues and 100 percent of the district per pupil on-line funding; except that the school district may withhold the actual amount of administrative overhead costs applicable to the district charter school, up to 5.0 percent of the per pupil funding. Further, the bill

requires a charter school to comply with all of the state financial budgeting and reporting requirements that apply to school districts.

Beginning in FY 2004-05 and every three years thereafter, the bill requires the Department of Education to prepare a report and evaluation for the Governor and the House and Senate education committees concerning the success or failure of charter schools. The State Board of Education would compile evaluations of district charter schools received from the chartering school districts and evaluations of state charter schools received from the Department of Education. The bill directs the State Board of Education to review the waivers of statutes and rules to determine their effectiveness.

Finally, the bill specifies that the provision of current law that allows a local government to refuse to comply with an unfunded state mandate does not apply to an order from the State Board of Education pertaining to the establishment, operation, or funding of a charter school or any modification of the statutory or regulatory responsibilities of school districts pertaining to charter schools.

State Revenues

Table 1 identifies the projected revenue to the State Charter School Cash Fund within the Department of Education from fee sources and from the transfer of General Fund school finance moneys that would otherwise be distributed to state charter schools during FY 2004-05 and FY 2005-06.

Fee Revenue. Charter school applicants are required to pay an appeal fee in an amount set by rule of the State Board of Education not to exceed \$5,000. In addition, applicants would pay an application fee, set by the State Board, not to exceed \$15,000. Revenue collected from these two fees would be credited to the State Charter School Cash Fund. Based on the assumption that five state charter school applications will be made during FY 2004-05, and that an additional ten applications will be made in FY 2005-06, total fee revenue is anticipated to be \$100,000 in FY 2004-05, and \$200,000 in FY 2005-06. It should be noted that any fee revenue collected will be counted as revenue for purposes of TABOR.

General Fund Transfer. The bill states that the Department of Education may withhold up to five percent of the funding that is payable to each state charter school to offset the costs incurred by the Department of Education in implementing the provisions of the bill and any costs incurred in contracting with a third party. It is assumed that the moneys withheld by the Department of Education will be transferred to the State Charter School Cash Fund. Moneys in the fund will be used to provide the necessary administration, oversight, and management services to state charter schools. The amount of moneys that would otherwise be distributed to charter schools is estimated to be \$487,256 in FY 2004-05, and \$1,013,491 in FY 2005-06. This estimate is based on the following assumptions:

- five state charter schools will be authorized in FY 2004-05, and that an additional ten state charter schools will be authorized in FY 2005-06;
- the average number of pupils per state charter school will be comparable to district charter schools at 318 students per school;
- the state average per pupil revenue of \$6,129 in FY 2004-05 and \$6,374 in FY 2005-06 will be used to fund state charter schools;
- the annual increase for FY 2005-06 will be 4.0 percent over FY 2004-05; and
- the Department of Education will withhold 5.0 percent of the per pupil revenue annually to cover the administrative costs of the program.

Table 1. Estimate of General Fund and Cash Fund Revenue Attributable to HB04-1141

	FY 2004-05	FY 2005-06
Number of State Charter Schools	5	10
Average Number of Pupils Per State Charter School	<u>318</u>	<u>318</u>
Total Number of Pupils in State Charter Schools	1,590	3,180
State Average Per Pupil Revenue	<u>\$6,129</u>	<u>\$6,374</u>
Total Program Funding for State Charter Schools	\$9,745,110	\$20,269,829
General Fund Transfer to the State Charter School Cash Fund 5% Withholding from Per Pupil Revenue	\$487,256	\$1,013,491
Cash Fund Fee Revenue - State Charter School Cash Fund		
Appeal Fees (\$5,000 per appeal)	\$25,000	\$50,000
Application Fees (\$15,000 per application)	<u>75,000</u>	<u>150,000</u>
Total Cash Fund Fee Revenue	\$100,000	\$200,000
Total Revenue to the State Charter School Cash Fund	\$587,256	\$1,213,491

State Expenditures

The Department of Education will be responsible for reviewing state charter school applications, negotiating contracts, reviewing expenditures, and for providing all of the start-up costs associated with the state charter schools. Based on the State Revenue section, \$117,451 (\$584,256 divided by 5 charter schools) will be available per approved state charter school application in FY 2004-05 to cover the department's administrative costs. The bill authorizes the Department of Education to contract with a third party for all or part of the administrative responsibilities of the program. Specific costs and the number of potential state employees or contract employees required to accomplish these functions has not been identified, however, since the anticipated revenue projected for the State Charter School Cash Fund will be on a per school basis, it is expected to be sufficient to cover these costs.

The annual General Fund School Finance appropriation will be reduced by the amount of funds withheld by the Department of Education to cover administrative overhead costs of the state charter school program.

School District Impact

Moneys that would have otherwise been allocated to school districts for public school students who are now attending a state charter school will be withheld from affected school districts and distributed directly to state charter schools. The reduction in students at the public schools 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 appropriation in the amount of \$587,256 in FY 2004-05 in order to implement the provisions of the bill.

Departments Contacted

Education