

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4158-01
Bill No.: HB 1228
Subject: Education, Elementary and Secondary; Elementary and Secondary Education Department; Higher Education Department; Education, Higher
Type: Original
Date: January 23, 2012

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	(Unknown - Could Exceed \$397,059)	(Unknown - Could Exceed \$280,458)	(Unknown - Could Exceed \$282,330)
Total Estimated Net Effect on General Revenue Fund	(Unknown - Could Exceed \$397,059)	(Unknown - Could Exceed \$280,458)	(Unknown - Could Exceed \$282,330)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 FTE

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator** state this proposal has no fiscal impact on the Courts.

Officials from the **Office of State Auditor** state this proposal will have no fiscal impact on their agency.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** anticipate no fiscal impact resulting from this proposed legislation.

Officials from the **Department of Higher Education** responded that this proposal would have no direct foreseeable fiscal impact on their agency.

Officials from the **Department of Senior Services - Children's Division** and **Division of Youth Services** stated there would be no fiscal impact on their respective divisions.

Officials from the **Office of the Governor** assume there should be no added cost to the Governor's Office as a result of this proposed legislation. However, if additional duties are placed on the office related to appointments in other Truly Agreed To and Finally Passed legislation, there may be the need for additional staff resources in future years.

Officials from the **Joint Committee on Education (JCED)** stated there should be no cost associated with the duties assigned to the JCED in the proposal.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

Officials from the **Missouri Senate** state this proposal either has no fiscal impact as it relates to their agency or minimal costs which can be absorbed by present appropriations.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state this proposed legislation should not result in additional costs or savings to BAP.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. The SOS is provided with core funding to handle a

ASSUMPTION (continued)

certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Elementary and Secondary Education (DESE)** provided the following assumptions and fiscal impact regarding this proposed legislation:

§160.400

§160.400.2 - Allows the expansion of charter schools over the coming school years. Currently, DESE is adding approximately 6 charter schools per year. This legislation has the potential of significantly increasing the number of charter schools. DESE cannot ignore the shortage of staff to provide guidance (technical assistance for data collection, certification, fiscal management, special education, food service, assessment, federal program, etc.) to these new charter schools to meet state and federal guidelines. A complicating factor is the high turnover of existing charter schools at the administrative level of existing charter schools.

§160.400.3 - Increases the number of entities that can be sponsors. Some of the sponsors that would be permitted have little experience with educational practices. DESE will need to assist these new sponsors. Payments for the additional sponsors would need to be calculated and distributed.

§160.400.17 - Requires sponsors to develop policies and procedures to review, grant, establish framework, oversight, closing, etc. for their charter schools. DESE will provide guidance to sponsors in developing such policies and procedures.

§160.400.18 - Will require DESE to evaluate sponsors every three years to determine compliance with standards.

DESE anticipates FTE needs for this section include two supervisory staff. One FTE would work mainly with the new charters and the other would work with the sponsors in developing policies and procedures and would evaluate sponsors.

ASSUMPTION (continued)

§160.403

This section requires DESE to establish an annual application and approval process for all entities eligible to sponsor charters as well as to review all existing charter sponsors. This is a necessary process to improve the quality of charter schools and would require a supervisor be hired at a minimum for the coming fiscal year. Two important deadlines makes this critical: (1) “No later than January 1, 2013, DESE shall make available information and guidelines for all eligible sponsors concerning the opportunity to apply for sponsoring authority”; and (2) “By July first of each year, DESE shall decide whether to grant or deny a sponsoring authority to a sponsor applicant.”

DESE would need a .5 FTE supervisor to work with the sponsorship approval process.

§160.405

§160.405.1 (11) - The Office of Financial and Administrative services at DESE would receive unobligated assets of a charter school that is closing for disposition.

§160.405.6 (1) and (2) - Proposes that charter schools establish alternative arrangements for students to obtain credit for satisfying graduation requirements. These special arrangements would be approved by the state board of education at the time the charter is approved.

§160.405.6 (2) - DESE shall conduct a study of any charter school granted alternative arrangements which will require additional monitoring personnel.

§160.405.7 through §160.405.9 - DESE assumes it will be taking an active role in the renewal process of charters including the closing of charter schools through compliance with all standards and hearings associated with the final closure. If compliance with all standards has not been achieved, the Department shall hold a public hearing to determine if the charter should be renewed. This process will require staff to monitor and organize.

§160.405.8 (4) - The final decision of a sponsor revoking a charter would go to the state board of education rather than judicial review. This would require additional research and review to support state board of education decision.

DESE anticipates a .5 FTE supervisory position would be needed to work with the charter schools on establishing alternative arrangements for students to obtain credit as well as working with the renewal process.

LMD:LR:OD

ASSUMPTION (continued)

§160.415

§160.415.7 would require DESE to review additional information from charter schools contracting with an education service provider to provide substantial services

DESE anticipates the need for a .5 FTE supervisory position to work with the charter schools on reviewing education service providers.

§160.417

This section requires DESE to review the information required by §162.821 to identify charter schools experiencing financial stress. This information would be sent to specific state government officials identified in the proposal. In addition, charter schools that are identified as financially stressed will submit to DESE a budget and education plan to ensure that adequate educational services to students of the charter school shall continue uninterrupted.

Oversight has, for fiscal note purposes only, adjusted the salary and benefits of the supervisors to correspond with the starting salary posted by DESE for a similar position.

§160.425

This section states that DESE shall provide start-up funding for the Missouri Charter Public School Commission to operate. The commission shall reimburse DESE's costs from any funds it receives as sponsor under §160.400. The commission is authorized to receive and expend gifts, grants, and donations of any kind from any public or private entity to carry out the purposes of §160.400 to 160.425. Acting as the fiscal agent for this commission will require personnel to monitor the fiscal transactions.

The commission would need approximately 8 average-size charter schools to generate \$300,000 for the second year. That would seem optimistic for a new commission. Subsequent years could generate additional income but as realized in the State of Georgia, the commission has grown to rely on an annual appropriation.

School year 2012-2013	\$300,000
School year 2013-2014	\$150,000
School year 2014-2015	\$150,000

Oversight assumes this section of the proposal does not provide for additional staff. Current

ASSUMPTION (continued)

legislation also caps the amount of funding retained for the expenses associated with sponsorship of charter schools at \$125,000. For fiscal note purposes, Oversight will assume one-time cost for FY 13 as (\$125,000).

Officials from the **Department of Health and Senior Services (DOHSS)** state that, according to information obtained from DESE, there are currently 41 charter schools in Missouri. The number of new charter schools that might arise as a direct result of this legislation is unknown, although the expectation is that the number would be minimal. The schools are chartered for a minimum of five years, and the number of board members ranges from 5 to 30, with the average number being 10. For the 2010-2011 school year, the total staff size of the 41 schools was 2,100 FTE (certificated and non-certificated). All staff members will be required to be registered and screened through the Family Care Safety Registry. During the first year, it is assumed that 2,100 registrations and background screenings will be conducted on school staff members and that none of the school staff members are currently registered with the Family Care Registry. Background screenings for school staff members must be conducted annually. A two percent growth factor for subsequent year registrations has been included in the estimates.

DOHSS assumed during the first year that 410 (41 schools times an average of 10 board members) registrations and background screenings will be conducted on board members, assuming that none of the board members are currently registered with the Family Care Safety Registry. Since the charters last for a minimum of five years, it is assumed that the maximum number of additional background screenings for board members in subsequent years would be 82 (410/5).

Given the following assumptions, DOHSS predicts the following FTE needs:

- One HPR-I/II FTE can process 12,000 manual registrations in a year.
- One HPR-I/II FTE and .5 OSA FTE can process 12,000 manual background screenings in a year.

Additional FTE needs are minimal, therefore DOHSS will not request additional staff related to this proposed legislation.

DOHSS assumes the proposed legislation would result in an estimated 2,510 new registrations in the Family Care Safety Registry for charter school staff and board members in FY 2013, 124 in FY 2014, and 125 in FY 2015. For each registration, \$10 is collected, resulting in \$25,100 in revenue in FY 2013, \$1,240 in FY 2014, and \$1,250 in FY 2015. This money will be collected

LMD:LR:OD

ASSUMPTION (continued)

by DOHSS and deposited into the Highway Patrol Criminal Records Fund.

DOHSS estimates related postage costs of \$2,636 for FY 13; \$1,600 for FY 13; \$1,631 for FY 15.

Oversight assumes, after verification from a charter school sponsor, that the background checks and registrations in the Family Care Safety Registry are already being done. **Oversight** will assign no revenue for the Highway Patrol Criminal Records fund and will also assume minimal postage costs that can be absorbed with existing appropriations.

Officials from the **University of Central Missouri (UCM)** - (Charter School Sponsor) estimate \$80,000 increased costs for the first year, and \$50,000 increased costs for each subsequent year to fulfill new requirements for sponsors including:

- an annual report from charter school sponsors to the Joint Committee on Education demonstrating statutory compliance related to oversight,
- additional criteria for oversight of charter schools related to school closure and schools experiencing financial stress,
- development of new policies related to oversight of charter schools, and
- an annual application for charter sponsorship.

After the first year, due to the number of schools sponsored by UCM, estimates of at least \$50,000 annually would be necessary to cover the cost of additional staff member or a consultant, mileage, postage, and operational costs associated with increased oversight responsibilities.

In response to a similar proposal from last year (HB 473 - FN 963-02), charter school sponsors responded:

Saint Louis University (SLU): SLU anticipated neither positive nor negative fiscal impact.

University of Missouri - Kansas City (UMKC): This proposal would increase the work load of a sponsor. UMKC would be able to handle the new work load, but this may not be the case for some of the smaller (student enrollment) sponsors. The UMKC Charter School Center estimated the implementation cost of \$75,000 for the 2011-2012 school year.

LMD:LR:OD

ASSUMPTION (continued)

University of Missouri - St Louis (UMSL): Officials from UMSL assumed the portion of this proposal that deals with sponsors applying to DESE to maintain their authority to sponsor would add a financial burden to sponsors. The documents mentioned would have to be created which mean hiring additional staff to carry out duties of sponsorship and could cost upwards of \$100,000 to create in terms of man hours during the year starting January, 2012 once guidelines were established. This, on top of current sponsorship duties, would create a substantial financial impact on sponsorship offices.

Based on responses from current charter school sponsors, **Oversight** assumes the costs associated with this proposed will be (Unknown - Could exceed \$100,000).

Officials from the following colleges and universities that are not currently charter school sponsors stated this proposal would have no fiscal impact on their respective institutions: **Northwest Missouri State University, Missouri State University, Missouri Southern State University, Kansas City Metropolitan Community College, Missouri Western State University, Harris-Stowe State University, and Linn State Technical College**

Officials from the **Mexico School District** stated no fiscal impact can be determined at this time.

Officials from the **Parkway School District (PSD)** do not anticipate any direct cost from this proposed legislation. PSD assumes any new funds required to support additional charter schools would reduce funding available to existing public school districts through the school foundation formula.

Officials from the city of **Kansas City** state no fiscal impact resulting from this proposal.

Officials from the city of St Louis did not response to a request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
<u>Cost - Department of Elementary and Secondary Education (DESE) - Personal Services (3 FTE)</u>			
Personal Services	(\$94,920)	(\$115,043)	(\$116,193)
Fringe Benefits	(\$50,251)	(\$60,904)	(\$61,513)
Equipment and Expenses	(\$26,888)	(\$4,511)	(\$4,624)
Charter Commission operational expenses	(\$125,000)	\$0	\$0
 TOTAL DESE Expenses	 (\$297,059)	 (\$180,458)	 (\$182,330)
 Estimated Net Effect on FTE for DESE	 3 FTE	 3 FTE	 3 FTE
<u>Cost - Charter School Sponsors (State Universities)</u>			
	(Unknown - Could Exceed \$100,000)	(Unknown - Could Exceed \$100,000)	(Unknown - Could Exceed \$100,000)
 ESTIMATED NET EFFECT ON GENERAL REVENUE	 <u>(Unknown - Could Exceed \$397,059)</u>	 <u>(Unknown - Could Exceed \$280,458)</u>	 <u>(Unknown - Could Exceed \$282,330)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal changes the laws regarding charter schools and establishes the Missouri Charter Public School Commission.

§160.400 – In addition to the St. Louis City and Kansas City School Districts, charter schools may be operated in unaccredited districts, provisionally accredited districts, and in districts accredited without provisions if sponsored by the local school board.

A school district or the State Board of Education, when acting as a sponsor, may have expenses associated with sponsorship be defrayed by having the Department of Elementary and Secondary Education (DESE) withhold up to 1.5% of the charter school's state and local funding. A sponsor that receives 1.5% funding to defray expenses associated with sponsorship must submit annual reports to the Joint Committee on Education demonstrating compliance with requirements.

A charter school sponsor must develop policies and procedures for the following: the review of a charter school proposal; the granting of a charter; the performance framework of a charter; the renewal, revocation, and nonrenewal processes; additional criteria for oversight of the charter; and procedures to be used when a school closes for the transfer or repository of student records, personnel records, and the disposition of school assets. DESE is required to provide guidance to sponsors in developing these procedures and policies.

The State Board of Education must evaluate sponsors to determine compliance with sponsorship standards. Currently, the State Board may suspend a sponsor's ability to sponsor a school for a period of one year. This proposal removes the one year limitation and allows the State Board to suspend sponsorship until reauthorized by DESE under §160.403. If the State Board removes sponsorship authority for any currently operating charter school, the Missouri Charter Public School Commission will become the school's sponsor.

§160.403 – DESE must establish an annual application and approval process for all entities eligible to sponsor charter schools. All information and guidelines for eligible sponsors must be made available by January 1, 2013.

By July 1 annually, DESE must grant or deny a sponsoring authority to a sponsor applicant. Within thirty days of DESE's decision, it must execute a renewable sponsoring contract with each approved sponsoring entity.

§160.405 – This proposal replaces the requirement that a charter state educational goals and objectives to be achieved by the school with the requirement that the charter contain a performance contract, as described in the proposal.

FISCAL DESCRIPTION (continued)

A charter must be submitted to the sponsor and follow the sponsor's policies and procedures for review and granting. In addition, the charter must be approved by the State Board of Education by December 1 prior to the proposed opening date of the charter school.

Currently, charter schools must collect baseline data during at least the first three years to determine performance. This proposal requires charter schools to establish baseline student performance during the first year of operation and collect student performance data, as described in the act, throughout the duration of the charter to annually monitor student academic performance, based upon grade levels offered by the school.

This proposal allows proposed or existing high risk or alternative charter schools to include alternative arrangements for students to obtain credits for satisfying graduation requirements in the charter application and charter. Upon approval of the charter by the State Board of Education, any alternative arrangements will be approved at the same time. DESE must conduct a study of any such charter school granted alternative arrangements for students to obtain credit to assess student performance, graduation rates, educational outcomes, and entry into the workforce or higher education.

The sponsor, governing board, and charter school staff must jointly review the school's performance, management, and operations during the first year of operation and then every other year after the most recent review, instead of the current requirement of at least once every two years.

This proposal removes judicial review of a sponsor's final decision to revoke a charter. Instead, the decision to revoke a charter will be subject to an appeal to the State Board of Education, which must then determine whether the charter will be revoked.

Beginning August 1, during the year in which a charter is up for renewal, a sponsor must demonstrate to the State Board of Education that the charter school is in compliance with federal and state law and the school's performance contract, including academic performance requirements. The sponsor must also submit a revised charter application to the State Board of Education, which must determine if the sponsor has demonstrated compliance. If compliance is demonstrated, the State Board must renew the charter.

§160.415 – An educational cooperative of school districts may provide managerial academic services as a contractor. The proposal contains requirements to be included in a request for proposals if a proposed charter school intends to contract with an education services provider for substantial educational services, management services, or both.

DESCRIPTION (continued)

DESE may withhold funding at an adequate level during a charter school's last year of operation until DESE determines that school records, liabilities, and reporting requirements, including a full audit, are satisfied.

§160.417 – By October 1, 2012, and each October 1 thereafter, DESE must identify charter schools experiencing financial stress using information from the report required by §162.821. By November 1, the sponsor must notify the governing board of a charter school if it is identified as experiencing financial stress. The governing board must develop and approve a budget and education plan, which must be submitted to the sponsor within forty-five days. Requirements for what must be included in the plan are described in the proposal.

DESE may withhold any payment of financial aid until such time as the charter school is in compliance with these requirements.

§160.425 – This proposal creates the Missouri Charter Public School Commission. Operating procedures for the Commission are included. The Commission may approve proposed charters for its sponsorship. DESE must provide start-up funding for the Commission to operate, which will be reimbursed from funds the Commission receives as sponsor of any charter schools under §160.400.

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
Department of Higher Education
Office of State Courts Administrator
Department of Health and Senior Services
Department of Social Services
 Children's Division
 Division of Youth Services
Office of the Governor
Department of Public Safety
 Missouri State Highway Patrol
Joint Committee on Administrative Rules
Joint Committee on Education
Office of State Auditor

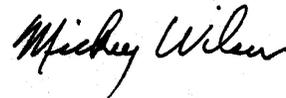
LMD:LR:OD

SOURCES OF INFORMATION (continued)

Office of Secretary of State
 Administrative Rules Division
Missouri House of Representatives
Missouri Senate
Office of Administration
 Division of Budget and Planning
School Districts
 Mexico
 Parkway
Colleges and Universities
 Northwest Missouri State University
 Missouri State University
 Linn State Technical College
 Kansas City Metropolitan Community College
 Missouri Southern State University
 Harris-Stowe State University
 Missouri Western State University
Charter School Sponsors
 University of Central Missouri
Kansas City

NOT RESPONDING

City of St Louis



Mickey Wilson, CPA
Director
January 23, 2012