

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4536-02
Bill No.: SB 1233
Subject: Education, Elementary and Secondary; Education, Higher; Teachers
Type: Original
Date: March 19, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$877,398)	(\$1,077,498)	(\$1,301,183)
Public Charter School Board Fund	\$0	\$0	\$0
Charter School Sponsor Oversight & Accountability Fund	\$0	\$0	\$0
Colleges and Universities	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds*	(\$877,398)	(\$1,077,498)	(\$1,301,183)

***Subject to appropriation**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
School Districts*	\$0	\$0	\$0

***Does not reflect increase in unfunded actuarial accrued liability of \$85,000,000 to the Public School Retirement System Fund or an increase in the unfunded actuarial accrued liability of \$10,000,000 to the Non-Teacher School Employee Retirement System Fund. These are not considered local funds for fiscal note purposes.**

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 12 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Coordinating Board for Higher Education, Office of Administration - Administrative Hearing Commission, Office of Administration - General Services,** and the **Office of State Courts Administrator** indicated this proposed legislation would have no fiscal impact on their agencies.

Officials from the **Office of the Governor** stated this proposal would have no direct cost to the Governor's Office.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** state that, according to the Patrol's Criminal Records and Identification Division, there would be minimal impact because they assume there would not be a dramatic increase in the number of criminal background checks performed as a result of the proposed legislation.

Officials from the **Office of Senate Administration** indicated that any costs associated with this proposal would be absorbed in current appropriations.

Officials from the **University of Missouri (UM)** state that the University of Missouri system would incur no additional costs as a result of this proposal as it is currently written.

Officials from the **Secretary of State's Office (SOS)** assumed the rules, regulations and forms issued by the Office of Administration, the Public Charter School Board, and any Missouri public teacher retirement system could require as many as 50 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$3,075 for FY 2003. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. 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 **Central Missouri State University (CMSU)** responded regarding the charter school oversight funding. CMSU assumed that if they used eleven schools in the computation, (KC Career Academy was revoked in December) the amount they would be eligible for would be

ASSUMPTION (continued)

approximately \$319,000. If ten schools are used (minus the KC Career Academy) the amount would be \$289,364. This assumption is based on an enrollment figure of 2,270 students. CMSU assumes this number will change somewhat and generally goes down then the enrollment/attendance figures are adjusted.

The **Department of Elementary and Secondary Education** made the following assumptions regarding the proposed legislation that alters statutes regarding charter schools:

SECTION 160.400

Since charter schools are not required to use DESE's services to perform background checks, DESE assume no costs to the Department; but, there will be costs either way to the charter school.

DESE will require 1.0 Supervisor FTE to handle charters if the State Board of Education suspends a sponsorship and to track the deadlines as outlined in the proposal.

According to DESE, the major state cost resulting from the proposal would arise with the establishment of the "Charter School Sponsor Oversight and Accountability Fund". This fund is subject to appropriation and would be administered by the Office of Administration. Based on estimated enrollment for 2001-02, the program costs for FY 03, 04, and 05 respectively would total \$714,284, \$904,895, and \$1,126,735. The projections are based on no additional growth in the already existing charter schools and no change in the state aid to either district. The enrollment estimates could fluctuate by several hundred students.

Oversight assumes that income and costs to charter school sponsors will not exceed the amount appropriated to the Charter School Sponsor Oversight and Accountability Fund and distributed through the grant process outlined in the proposal.

Officials from the **Kansas City Missouri School District (KCMSD)** made the following assumptions regarding the portion of Section 160.400 that addresses buildings owned or controlled by a school district being made available to charter schools:

When the KCMSD decides to close a building, the one chosen for closing is the one in need of the most repairs. When leasing a building that has been vacant for several years it normally requires a considerable investment to bring the building up to standard. For example, the KCMSD spent about \$300,000 a few years ago when it leased a high school building that had been vacant for several years. In addition the KCMSD is responsible for major repairs that might occur with continued use. These are examples of expenditures that would not have been incurred

had the building remained closed. It is important that the KCMSD is able to negotiate a lease that will allow recovery of incremental cost of re-opening buildings.

ASSUMPTION (continued)

Officials from the **Office of Administration - Commissioner's Office** indicated the need for 0.5 FTE to write the rules, communicate with charter schools and/or sponsors, review grants, and do the calculations necessary to comply with the requirements of this section.

SECTION 160.403

This proposal would establish the "Public Charter School Board" comprised of nine members who shall review charter applications, grant charters, adopt rules, and be eligible for reimbursement of expenses. Per the proposal, DESE shall provide the same resources and personnel that it currently provides to the state board of education without assigning additional costs to the public charter school board, and DESE shall provide all administrative support required by the public charter school board within current appropriations. DESE was never appropriated staff to carry-out the duties that have arisen since passage of the charter school legislation in 1998. DESE currently has one FTE assigned to perform charter school duties in addition to duties previously assigned. This proposal would effectively double the duties related to charter schools and overburden the one assigned FTE.

The proposal does not address procedures to be followed when an application is denied by the Public Charter School Board. Currently, the state board of education may grant a charter and act as sponsor of a charter school if it determines the applicant meets statutory requirements and that granting the charter would likely provide educational benefit to the children of the district. It should be noted that the Public Charter School Board would deal exclusively with charter schools; whereas, the state board of education currently entertains many other duties. DESE assumes the dedicated charter school board would create the potential for a significant increase in charter school activity. Given the doubled workload of the assigned FTE (mentioned above) and the potential for a significant increase in charter school activity, DESE would require 1.0 FTE supervisor to carry out the requirements of the proposal.

Oversight assume that 1.0 FTE Supervisor could track deadlines as outlined in the proposal (Section 160.400) and carry out any other requirements of the proposed legislation.

The proposal also establishes the "Public Charter School Board Fund" which shall receive an annual transfer of \$99,000 from general revenue and shall have a unique appropriation for its operation; however, DESE shall not have budgetary authority over the development of budget requests or the expenditures of funds.

ASSUMPTION (continued)

SECTION 169.596

Officials from the **Public School Retirement System** stated that this section of the proposed legislation allows retired teachers from any Missouri retirement system, who are in a teacher shortage area, to return to work full time for two years without losing their retirement benefits. The proposal also allows any non-certificated employees who are also in shortage areas to return to work for two years with no penalties on their benefits.

An actuarial cost estimate was completed by Norm Losk of Gabriel, Roeder, Smith & Company which estimated that if 1000 Public School Retirement System members were to return to work and continue receiving benefits that the Actuarial Accrued Liability would increase \$85 million and the amortization of the Unfunded Actuarial Accrued Liability would increase by 5.5 years while the contribution rate, based on a 30 year amortization of the Unfunded Actuarial Accrued Liability would increase from 20.64% to 20.75%. For The Public School Retirement Systems of MO to not incur costs on this proposal, the employer contribution rate would need to continue at a rate of 10.1%.

It was also estimated if 2500 Non-Teacher School Employee members returned to work after retirement with no loss of benefits, the Actuarial Accrued Liability would increase \$10 million and the contribution rate would increase from 10.00% to 10.18% with a 30 year amortization period. For this plan to remain cost neutral in the Non-Teacher School Employee Retirement System of MO, it is necessary for the employer to make a 10% contribution for each employee.

Officials from the **Kansas City Public School Retirement System** assumed there should be no fiscal impact to the retirement system since costs are paid by the hiring district and there must be rules insuring that provisions are cost neutral.

Officials from the **Joint Committee on Public Employee Retirement** indicate the proposal would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660 (5) RSMo.

Officials from the **Public School Retirement System of Saint Louis** indicated this proposal would not have fiscal impact on their retirement system.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Cost - Department of Elementary and Secondary Education (DESE)</u>			
Personal Services (1.0 FTE)	(\$29,896)	(\$36,772)	(\$37,691)
Benefits	(\$10,766)	(\$13,242)	(\$13,573)
Equipment and Expense	<u>(\$4,447)</u>	<u>(\$824)</u>	<u>(\$848)</u>
Total <u>Cost</u> - DESE	(\$45,109)	(\$50,838)	(\$52,112)
<u>Cost - Office of Administration</u>			
Personal Services (0.5 FTE)	(\$13,146)	(\$16,169)	(\$16,573)
Benefits	(\$4,734)	(\$5,822)	(\$5,968)
Expense and Equipment	<u>(\$625)</u>	<u>(\$774)</u>	<u>(\$795)</u>
Total <u>Cost</u> - Office of Administration	(\$18,505)	(\$22,765)	(\$23,336)
<u>Transfer Out - Transfer to Public Charter School Board Fund*</u>	(\$99,000)	(\$99,000)	(\$99,000)
<u>Transfer Out - Transfer to Charter School Sponsor Oversight and Accountability Fund*</u>	<u>(\$714,284)</u>	<u>(\$904,895)</u>	<u>(\$1,126,735)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$877,398)</u>	<u>(\$1,077,498)</u>	<u>(\$1,301,183)</u>
*Subject to Appropriation			
PUBLIC CHARTER SCHOOL BOARD FUND			
<u>Transfer In - General Revenue</u>	\$99,000	\$99,000	\$99,000
<u>Costs - Charter School Board Operations</u>	<u>(\$99,000)</u>	<u>(\$99,000)</u>	<u>(\$99,000)</u>
ESTIMATED NET EFFECT ON CHARTER SCHOOL BOARD FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - State Government

FY 2003
 (10 Mo.)

FY 2004

FY 2005

**CHARTER SCHOOL SPONSOR
 OVERSIGHT AND
 ACCOUNTABILITY FUND**

Transfer In - General Revenue

\$714,284

\$904,895

\$1,126,735

Transfer Out - Charter School Sponsors
 Grants for reimbursement of Costs of
 Charter School Sponsors

(\$714,284)

(\$904,895)

(\$1,126,735)

**ESTIMATED NET EFFECT ON
 CHARTER SCHOOL SPONSOR
 OVERSIGHT AND
 ACCOUNTABILITY FUND**

\$0

\$0

\$0

COLLEGES AND UNIVERSITIES

Income - Grants from Charter School
 Sponsor Oversight and Accountability
 Fund

Unknown

Unknown

Unknown

Cost - Costs of Sponsoring Charter
 Schools

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
 COLLEGES AND UNIVERSITIES**

\$0

\$0

\$0

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
SCHOOL DISTRICTS			
<u>Income</u> - Grants from Charter School Sponsor Oversight and Accountability Fund	Unknown	Unknown	Unknown
<u>Costs</u> - Cost of Sponsoring Charter Schools	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS*	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

***Does not reflect increase in unfunded actuarial accrued liability of \$85,000,000 to the Public School Retirement System Fund or an increase in the unfunded actuarial accrued liability of \$10,000,000 to the Non-Teacher School Employee Retirement System Fund. These are not considered local funds for fiscal note purposes.**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposed legislation makes numerous revisions to laws pertaining to charter schools:

SECTION 160.400 - Charter schools may be operated in the currently authorized territories, even if the existing school district no longer exists or includes that territory. The proposal clarifies that charter schools may be sponsored by a public 4- year college or university in a county containing an eligible school district, even if the college or university is not in the school district. The proposal alters the provision concerning school buildings owned or controlled by a school district in which charter schools may be established.

The proposal constructs a Charter School Sponsor Oversight and Accountability Fund, with grant funding administered by the office of administration. Funds shall be transferred annually by the State Treasurer, based upon the number of charter schools and charter school enrollment the previous year. Approved sponsors shall receive \$23,400 per school sponsored the previous year plus 0.5% of per pupil operating revenues for each student enrolled in such school the previous year. Any sponsor may apply and must demonstrate compliance of all requirements of law. Grant

funds shall be prorated if necessary when funds are inadequate. Unused funds shall be retained and used to reduce the next year's withholding from charter school revenues.

DESCRIPTION (continued)

Prior to granting or renewing a charter, sponsors must complete criminal background checks on the members of the Board of Directors of any nonprofit corporation applying to establish a charter school. No member of a charter school board may be employed by the charter school nor have a significant interest in any entity employed by or contracting with the board.

SECTION 160.403 - The section establishes the Public Charter School Board, which shall be responsible for reviewing charter applications and granting or not granting charters. The Public Charter School Board shall notify applicants of a decision, in writing, within sixty days of submissions of applications. The public charter school board shall develop policies and procedures to measure and report the performance of schools and students for whom the board grants charters. The policies and procedures shall be designed to be compatible with the educational concept of the charter and philosophy of charter schools. Student progress shall be measured using data from a variety of vehicles, including but not limited to, the MAP test, the Stanford Nine, student portfolios and other sources of student level data.

The proposal also creates the Public Charter School Board Fund, which shall be used exclusively for the operation of the public charter school board. Subject to appropriation, the state treasurer shall, on the first business day of each fiscal year, transfer, from general revenue to the public charter school board fund, \$99,000 on an annual basis.

The act mandates that DESE shall provide all administrative support required by the public charter school board while utilizing the same resources and personnel that it currently provides to the state board of education without assigning additional costs to the public charter school board. The department of elementary and secondary education shall not have budgetary authority over the development of budgetary requests or the expenditures of funds.

SECTION 160.405 - The proposal revises the procedure and time line for chartering a school. A charter school proponent shall provide the local school district and the State Board of Education with copies of the charter school application within five days of submitting the application to the proposed sponsor. The sponsor's decision of approval or denial must be made within 90 days of filing the proposed charter (rather than the current 60); if the charter is denied, written notice must be served on the State Board of Education within 5 days. The State Board has 60 days to deny or grant a proposed charter and shall provide reasons for denial in writing, if applicable.

Charter schools are required to publish audits and financial reports. Charter schools may publish audit reports and annual financial reports via the internet on the secretary of state's website in lieu of other publishing requirements. A charter may be revoked for failure to provide necessary

compliance information, or the sponsor may require specified remedial action of the school.

Charter school board members, officers and employees who willfully violate charter school laws
DESCRIPTION (continued)

or neglect to perform any duty in the charter school laws are guilty of a misdemeanor as other public school employees are under current law. A charter school board may participate in the Missouri Public Entity Risk Management Fund to the same extent as a school board. The proposal allows a charter school to be located on the property of a school district without the agreement of the governing board of that district.

SECTION 160.410 - Charter schools must make available the charter, the results of background checks, and the public report card to the parent of guardian of any pupil eligible to seek to enroll at the school. Reasonable fees may be charged for such copies.

SECTION 160.415 - This section alters the payment mechanism for state (and federal) aid to charter schools by mandating that DESE pay the charter schools directly. Currently, DESE pays school districts and the school districts forward the appropriate allotment to the charter schools inside their district. If DESE overpays or underpays the amount due the charter school, such over or under payment shall be repaid by the public charter school or credited to the public charter school in twelve equal payments in the next fiscal year. Any dispute between DESE, the school district, and a charter school regarding funding shall be resolved by the administrative hearing commission, with the option of judicial review. If a dispute should occur, DESE is mandated to make every administrative and statutory effort to allow the continued education of children in their current public charter school educational setting and not take action which prevents (either directly or indirectly) the continued operation of a charter school.

SECTION 160.420 - This section allows district teachers employed in charter schools to retain tenure status and shall retain seniority rights for three years. Charter schools are permitted to hire noncertificated administrators.

SECTION 167.349 - This section allows any campus of the state university located in a county of the third classification (University of Missouri - Rolla) to sponsor charter schools.

SECTION 169.596 - This section permits any school district with a shortage of certified teachers to allow retired certificated teachers from any Missouri public teacher retirement system to teach full-time for up to two years without losing his or her retirement benefits, so long as the total number of such retired certificated teachers does not exceed the greater of ten percent of the total teacher staff for that school district, or five certificated teachers. Further, any school district with a shortage of non-certificated employees may allow those retired individuals to be employed full-time for up to two years without losing his or her retirement benefits. The total number of such retired non-certificated employees shall not exceed the greater of ten percent of

the total non-certificated staff for that school district, or five employees. All necessary costs shall be paid by the hiring school district and shall not exceed the school district's statutory cost limitations. **If enacted, this section shall take effect upon its passage and approval.**

DESCRIPTION (continued)

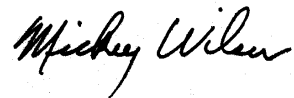
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of State Courts Administrator
Coordinating Board for Higher Education
Kansas City Public School Retirement System
Joint Committee on Public Employee Retirement
Department of Public Safety
Missouri State Highway Patrol
Office of the Governor
Office of Secretary of State
Administrative Rules Division
Office of Senate Administration
Office of Administration
Commissioner's Office
Administrative Hearing Commission
General Services Division
St Louis Public Schools
University of Missouri
Public School and Non-Teacher Employee Retirement Systems
Central Missouri State University
Kansas City Missouri School District

NOT RESPONDING

Southeast Missouri State University
Harris-Stowe



Mickey Wilson, CPA
Acting Director

March 19, 2002