MINIMUM SCHOOL PROGRAM
CHARTER SCHOOL FUNDING PROGRAMS

PUBLIC EDUCATION APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

The Legislature established charter schools in Utah approximately 15 years ago. Charter schools are public schools open to all students. As public schools, tuition is not charged and charter schools receive the majority of their funding from the state. Each charter school is an independent Local Education Agency.
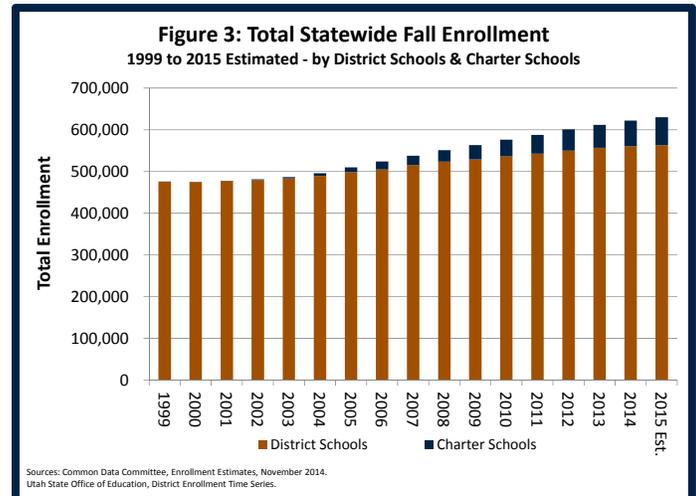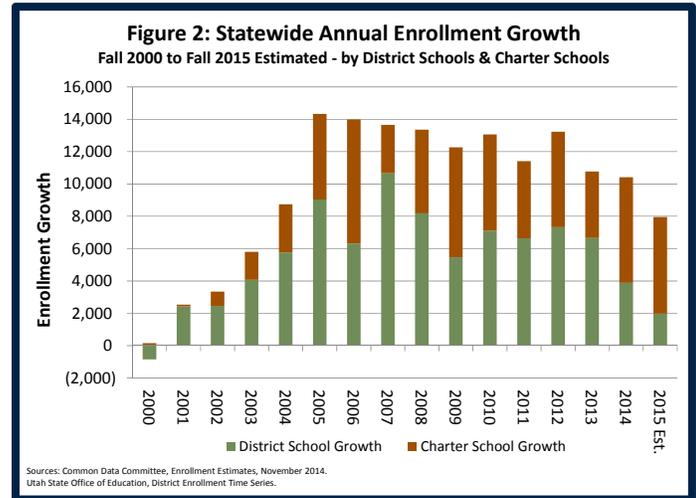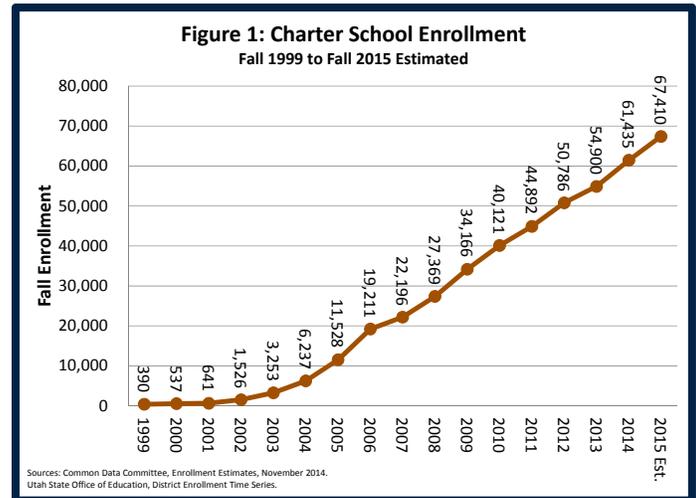
This brief provides a history of the creation of charter schools in Utah, the growth of student enrollments and schools, and state funding mechanisms. Specifically, the Minimum School Program (MSP) contains two categorical programs that provide supplementary funding to charter schools – the Local Replacement Formula and Administrative Costs.

ENROLLMENTS

Since the opening of the first group of charter schools in 1999, enrollment in charter schools has grown rapidly. Charter schools now enroll 61,435 students as of fall 2014. Figure 1 shows the growth in charter school enrollment since 1999.

The year over year increase in students attending charter schools has been unpredictable and has ranged from 8.1 percent (fall 2013) to 138.1 percent (fall 2002). Figure 2 highlights Statewide Annual Enrollment Growth since 2000 in both district and charter schools. In fall 2000, enrollment in district schools decreased while charter school enrollment increased. There was a net enrollment decrease in the state of 315 students. Figure 2 shows where growth students enrolled between district and charter schools.

In fall 2000, 2006, 2009, 2014, and 2015 (projected) net new student enrollment in charter schools has exceeded that of district schools. Figure 3, shows the total statewide fall enrollment between district schools and charter schools. Charter schools enroll approximately 11 percent of all public school students in the state.

Figure 1: Charter School Enrollment
Fall 1999 to Fall 2015 Estimated

Sources: Common Data Committee, Enrollment Estimates, November 2014.
Utah State Office of Education, District Enrollment Time Series.

Figure 2: Statewide Annual Enrollment Growth
Fall 2000 to Fall 2015 Estimated - by District Schools & Charter Schools

Sources: Common Data Committee, Enrollment Estimates, November 2014.
Utah State Office of Education, District Enrollment Time Series.

Figure 3: Total Statewide Fall Enrollment
1999 to 2015 Estimated - by District Schools & Charter Schools

Sources: Common Data Committee, Enrollment Estimates, November 2014.
Utah State Office of Education, District Enrollment Time Series.

Funding

The Basic School Program in the Minimum School Program provides most operating revenue to all public schools through the Weighted Pupil Unit. Statute provides a slightly different grade-level weighting schedule for charter schools. Section 53A-1a-513 provides that "charter school pupils shall be weighted, where applicable, as follows: .55 for kindergarten pupils; .9 for pupils in grades 1 through 6; .99 for pupils in grades 7 through 8; and 1.2 for pupils in grades 9 through 12."

The Legislature implemented this weighting schedule to mimic allocation models used by school districts when funding different school types. Elementary schools are generally cheaper to operate than high schools so a school district can move funding within its budget to meet the varied needs. This flexibility does not exist among charter schools since each school is an independent entity.

For all other categorical programs, participation is based on meeting defined statutory criteria. However, charter schools are exempted by statute from receiving state funding dedicated for student transportation. The Minimum School Program also contains two restricted categorical programs that provide funding to charter schools: the Local Replacement Formula and Administrative Costs.

Local Replacement Formula

The Local Replacement Formula was established to provide revenue to charter schools to assist in school operations and capital facility needs. Unlike school districts, charter schools do not have the ability to tax their patrons to cover facility costs. The Legislature created a statutory formula that provides an equalized per pupil state appropriation to each charter school to replace some of this locally generated property-tax revenue not available to charter schools.

Figure 4 provides an appropriations history for the Local Replacement Formula. Significant formula changes occurred in FY 2002, FY 2003, and FY 2009.
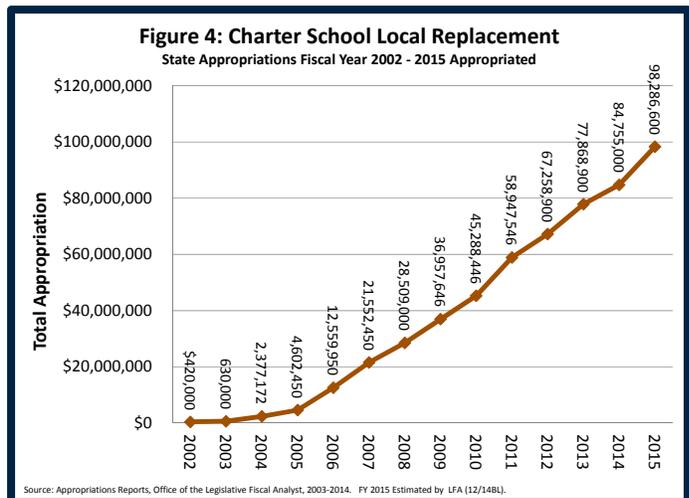
In FY 2015, a total of $98,286,600 was appropriated from the education fund to support the program. However, the total cost of the program is estimated at just over $110.5 million. School districts are required to pay a portion of the total cost. The district contribution is estimated at $12.2 million for FY 2014, approximately 11.1 percent of the total program cost.

The formula in statute produces a local replacement rate that each charter school receives per enrolled student. In FY 2015, this rate is $1,660 and mirrors the average per-student local property tax revenue in the school districts two years ago. For example, the FY 2015 rate was based on FY 2013 tax data. Figure 5 shows the annual increases in the local replacement rate since 2005 with the new rate for FY 2016.

Figure 4: Charter School Local Replacement
State Appropriations Fiscal Year 2002 - 2015 Appropriated

Source: Appropriations Reports, Office of the Legislative Fiscal Analyst, 2003-2014. FY 2015 Estimated by LFA (12/14BL).

Figure 5: Local Replacement Rate History
FY 2005 to FY 2016 Estimated

Fiscal Year	Rate	Change in Dollars	Percent Change
2005	$1,006		
2006	1,051	$45	4.5%
2007	1,142	91	8.7%
2008	1,184	42	3.7%
2009	1,427	243	20.5%
2010	1,427	0	0.0%
2011	1,607	180	12.6%
2012	1,687	80	5.0%
2013	1,710	23	1.4%
2014	1,689	(21)	-1.2%
2015	1,660	(29)	-1.7%
2016	1,746	86	5.2%

In FY 2014 and FY 2015 the local replacement rate decreased slightly based on local property tax collections in the school districts. In FY 2016, based on current statutes, total state funding for the program may increase to $102.7 million due to increased student enrollment. Local school districts are estimated to contribute $15.0 million to the program for a total of $117.7 million.

Due to a lag in school district financial reporting, the local replacement formula is calculated on the most recent school district property tax revenue data available. The per-student local replacement rate estimate for FY 2015 is based on FY 2013 school district property tax revenues reported in the Superintendent's Annual Financial Report.

Program Origins

The Local Replacement Formula (LRF) program began with the local school districts and the state sharing the costs of the program. The state provided half of the per pupil revenue generated in the districts through property tax assessments. School districts in turn transferred the corresponding half to a charter school when a student enrolled.

This program resulted in inequities among the different charter schools because only half the revenue was equalized by the state. The transfer of local property tax revenue also fostered tensions between school districts and charter schools by making charter schools financially dependent on school districts.

During the 2003 General Session, the Legislature developed a formula that allowed the local school districts to retain all locally generated property tax revenue. The state began providing an equalized average per student amount to charter schools to replace the lost local property tax revenue.

Since 2003, the LRF has been modified several times. Each iteration attempts to reach a level of equity in per-student revenues between district schools and charter schools. However, per-student revenue equity has not been defined or universally accepted. The latest version of the LRF was approved by the Legislature during the 2008 General Session and took effect in FY 2009.

Current Statutory Formula

The formula passed during the 2008 General Session maintains some concepts of the earlier versions, but reinstates a cost sharing mechanism between the state and school districts. Detail on this formula is found in statute (53A-1a-513). A diagram showing how the current formula works is located below.

Statute establishes a "District Average Per Pupil Revenue" rate (step #1 below). This rate is based on the total property tax revenue generated in the school districts divided by the total ADM of the school district (including district students attending a charter school). Property taxes included in the formula are the Voted Local Levy, Board Local Levy (less some statutory exclusions) and Capital Local Levy.

Originally, the formula included state revenues used to support the Voted, Board, and Capital Outlay programs. These items were excluded from the final formula. The state funds appropriated to these programs is targeted to equalize property tax revenue generated per-student in the school districts. Since the local replacement formula is designed to mirror the average per-student collections in the school districts, revenue equalization is already factored in the local replacement formula.

A second component to the formula requires the state to provide a replacement amount for revenues generated by school districts for debt service (step #3 below). The LRF provides the state-average per student Debt Service Revenues for each student enrolled in a charter school.

School districts must also contribute to the cost of the local replacement. School districts contribute 25 percent of the lesser of their "District Average Per Pupil Revenue" or "charter school students' average local revenues" (step #2 below). One primary difference between this formula and the original cost-sharing formula used in 2002-03 is that school districts do not directly transfer funding to the charter

schools. The Utah State Office of Education deducts from the school district's Minimum School Program allocation funds equal to the qualifying 25 percent.

When all formula components are added together, charter schools receive a Local Replacement of $1,660 per enrolled student in FY 2015.

CSLR Formula Diagram

Charter School Local Replacement Formula

1. Local Property Tax Revenue from:
   - Voted Local Levy +
   - Board Local Levy* +
   - Capital Local Levy +
   = Subtotal Local Revenues
   ÷ Total District ADM (All Resident Students)
   = District Per-Pupil Local Revenues (Range: $193- $5,782 Per Student)

* Excludes Board Local Levy revenue expended for:
 1. Recreation Facilities;
 2. Playgrounds (Authorized in Title 11, Chapter 2);
 3. Pupil Transportation (up to revenue generated by 0.0003 per dollar of taxable value); and the
 4. K-3 Reading Improvement Program (up to revenue generated by a 0.000121 per dollar of taxable value).
See Statute 53A-1a-513.

2. District Per-Pupil Local Revenues
   × Fall Enrollment of Resident Students in Charter Schools
   = Total Local Revenues for Resident CS Students
   + Sum All Local Revenues for CS Students in the State
   ÷ Total Statewide Charter School Fall Enrollment
   = Charter School Students' Average Local Revenues ($1,086 Per Student)

Paid by Resident District & State:

District*	State
25% of the lesser of: 1. District Per Pupil Revenues (Range: $193 - $271) 2. Charter School Students' Average Local Revenues ($271)	Charter School Students' Average Local Revenues ($1,086) Less: Allocation of School District Revenues per Student Range: ($193 - $271)

*Amount deducted from the District's MSP Allocation

3. Local Property Tax Revenue from:
   - Debt Service Levy
   ÷ Statewide School District ADM
   = Statewide Average Debt Service Revenues (Range: $88 - $1,736 Per Student)

Average Paid by State: $574 →

Charter School Local Replacement Rate: $1,660 Per Student

ADMINISTRATIVE COSTS

Since FY 2006, the Legislature has appropriated additional funding to support school-level administrative costs for all charter schools in the state. Charter schools have many of the same administrative and data reporting requirements of school districts, but lack the student numbers to offset the cost of these functions. Schools receive funding based on the number of students they enroll. Originally the amount was $62 per student; it has since increased to $100 per student. In FY 2015, a total of $6,657,800 was appropriated to support the program.