

# Issue Brief – Local Replacement Formula Change

MINIMUM SCHOOL PROGRAM

PED IB-MSP02

## SUMMARY

The Local Replacement Funding program was established within the Minimum School Program to provide revenue to charter schools to assist in facility needs. Unlike school districts, charter schools do not have bonding authority or 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 the locally generated revenue charter schools cannot access.

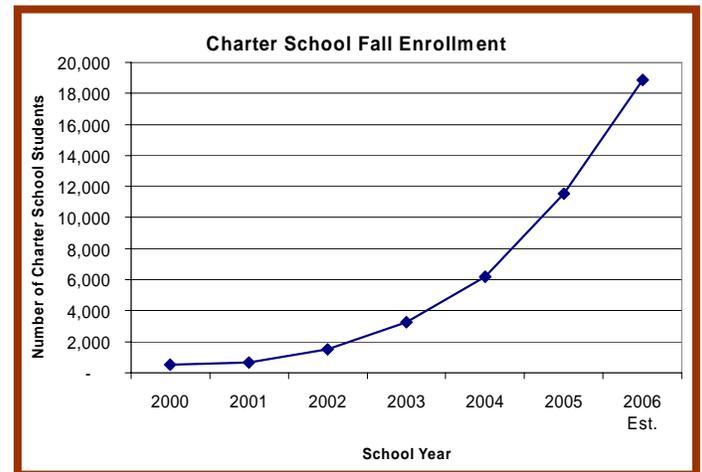
## OBJECTIVE

This brief provides information on the charter school Local Replacement Funding, the current formula detailed in UCA 53A-1a-513, and the potential impact of proposed formula changes.

## DISCUSSION AND ANALYSIS

### *Charter School Enrollment*

Student enrollment in charter schools has grown significantly over the past several years. In fall 2005, charter schools enrolled 11,540 students. Fall 2006 estimates indicate that approximately 18,800 students will enroll in charter schools – a 63 percent increase.



### *Origins of the Local Replacement Funding Program*

The program originated with the local school districts and the state sharing in the cost of the program. The state provided an appropriation equal to half the per pupil revenue generated in the districts through property tax assessments. School districts in turn transferred the corresponding half to the charter school when a student enrolled. This program resulted in funding inequities among the different charter schools, because only half the revenue was equalized with state funds.

During the 2003 General Session, the Legislature changed statute and developed a system that allowed the local school districts to retain all locally generated property tax revenue. The state now provides an equalized average per student amount directly to the charter school to replace locally generated revenues.

### *Current Statutory Formula*

The formula defined in statute calculates a statewide average for local property tax generated per student in each of the 40 school districts. Utah code section 53A-1a-513(4) states: “The amount of money provided for each charter school student shall be determined by: (i) calculating the sum of: (A) school districts’ operations and maintenance revenues [general fund] derived from local property taxes, except revenues from imposing a minimum basic tax rate pursuant to Section 53A-17a-135; (B) school districts’ capital projects revenues derived from local property taxes; and (C) school districts’ expenditures for interest on debt.” See Appendix A for more detail.

<b>Local Replacement Formula - Current Statutory Formula</b>	
General Fund - Local Revenue	\$477,898,490
Less MSP Basic Rate	(236,027,265)
Subtotal General Fund	241,871,225
Capital Projects Fund - Local Revenue	241,651,000
Debt Service Expenditures	70,231,996
<b>Total Formula Revenue:</b>	<b>\$553,754,221</b>
2005 District ADM (Excluding Charters)	484,766
Estimated Fall 2006 CS Enrollment	18,867
<b>FY 2007 Local Replacement Per Student</b>	<b>\$1,142</b>
FY 2007 Total MSP Appropriation	\$21,552,002
Less Ongoing Base in MSP	(12,559,950)
<b>Total FY 2007 New Revenue Needed:</b>	<b>\$8,992,052</b>

*FY 2007 Base Budget* – S.B. 3 “Minimum School Program Base Budget Amendments” includes an appropriation sufficient to provide \$1,142 per student enrolled in a charter school for the 2006-07 school year.

### ***Revised Formula I – Debt Service Expenditures vs. Debt Service Revenue***

The current formula uses debt service expenditures instead of debt service revenue collected by the districts as one of the primary formula components. Using expenditures from the debt service program, instead of debt service revenue, runs counter to the other two elements of the formula. The Legislature used caution during the creation of the formula in statute in order to ensure that school district bond revenue was not double counted in the formula, namely, bond revenue and the local revenue generated to repay the bonds.

<b>Revised Formula I</b>	
General Fund - Local Revenue	\$477,898,490
Less MSP Basic Rate	(236,027,265)
Subtotal General Fund	241,871,225
Capital Projects Fund - Local Revenue	241,651,000
Debt Service Fund - Local Revenue	204,936,774
<b>Total Formula Revenue:</b>	<b>\$688,458,999</b>
2005 District ADM (Excluding Charters)	484,766
Estimated Fall 2006 CS Enrollment	18,867
<b>FY 2007 LRF Per Student (Statutory Formula)</b>	<b>\$1,142</b>
<b>FY 2007 LRF Per Student (Revised Formula)</b>	<b>\$1,420</b>
FY 2007 Total MSP Appropriation	\$26,794,684
Less Ongoing Base in MSP	(12,559,950)
<b>Total FY 2007 New Revenue Needed:</b>	<b>\$14,234,734</b>
<b>Total FY 2007 Revenue Needed (Statutory Formula):</b>	<b>8,992,052</b>
<b>FY 2007 Incremental Difference:</b>	<b>5,242,683</b>

Bond revenue is categorized by school districts as an “other” revenue source. Bond revenue is not accounted for in the local property tax revenue generated for the debt service program. Property tax revenue generated for the debt service program in the school districts could be included in the formula without fear of double counting.

Estimates for FY 2007 indicate that revising the Local Replacement Funding formula would increase the per student amount by approximately \$278. A change in formula would generate a total of \$1,420 for each student enrolled in a charter school. This formula change will require an increased Uniform School Fund appropriation for FY 2007 of \$5,242,700. This is in addition to the increase provided in S.B. 3 “Minimum School Program Base Budget Amendments” of \$8,992,000. Appendix B provides further information on the proposed formula revision.

### ***Revised Formula I – FY 2006 Supplemental***

The per student amount for the Revised Formula I, as proposed during the 2005 General Session, totaled \$1,318. The Legislature did not change the statutory formula and appropriated \$1,051 per student. Some have expressed interest in providing a supplemental appropriation to provide each charter school the differential between the statutory formula amount and the Revised Formula I for FY 2006. The formula differentials total \$267 per student. As mentioned above, Fall 2005 charter school enrollment totaled 11,540. To provide a supplemental appropriation to each of the charter schools based on the formula differential would require \$3,100,000.

### ***Revised Formula II – State Guarantee Programs***

The Revised Formula II includes the addition of three additional formula components representing state funds appropriated to support the Voted Leeway, Board Leeway, and Capital Outlay Foundation programs. State revenue appropriated to these programs acts as a revenue guarantee, ensuring that each participating school district levying these taxes will generate a minimum dollar amount per student.

Including the state appropriation for these programs as a component in the Local Replacement Formula enables the charter schools to participate in these state guarantees. Other components in the formula allow the charter schools to participate in the local property taxes generated to support these programs. The formula will provide each charter school with the state-wide average per student revenue amount appropriated for the Voted Leeway, Board Leeway and the Capital Outlay Foundation programs.

In a recent research report, the Utah Foundation identified funding parity as one of the challenges faced by charter schools. In this report, the foundation identified several issues with the Local Replacement Funding program. The first issue mentioned by the foundation is addressed in the ‘Revised Formula I’ section above. This item has been identified as a concern by the Analyst during the past few General Sessions.

Several Legislators requested that a formula be created to remedy the other Local Replacement Funding issues identified by the Utah Foundation. The Foundation's report states "another shortfall in the local replacement formula is that it does not count state guarantees used to supplement local property taxes in districts with low property tax values. These revenues might be considered 'quasi-property tax' and are used for the same purposes as the local property taxes."<sup>1</sup> The 'Revised Formula II' detailed above attempts to address these formula issues.

Estimates for the Revised Formula II indicate that the LRF formula would increase amount per charter school student by approximately \$370 over the current statutory formula. This formula change would generate a total of \$1,512 for each student enrolled in a charter school, requiring an increased Uniform School Fund appropriation for FY 2007 of \$6,971,500. This is in addition to the increase provided in S.B. 3 "Minimum School Program Base Budget Amendments" of \$8,992,000. Appendix C provides further information on the proposed Revised Formula II.

### **LEGISLATIVE ACTION**

Subcommittee members may wish to discuss the policies surrounding the Minimum School Program Local Replacement Funding program, and the impacts of changing the formula. Several options remain for the subcommittee to consider:

1. Consider amending charter school Local Replacement Funding formula to reflect local property tax revenue generated for debt service in the school districts as a basis for determining the per student replacement amount instead of debt service expenditures.
2. Consider amending the charter school Local Replacement Funding formula to reflect the proposed "Revised Formula II" as detailed above.
3. Discuss how changing the formula for Local Replacement Funding would impact charter school operations and the need for additional charter school funding requests in the coming fiscal year. Could providing an increase in the Local Replacement Funding formula reduce the potential need for other charter school funding requests?

<b>Revised Formula II</b>	
General Fund - Local Revenue	\$477,898,490
Less MSP Basic Rate	(236,027,265)
Subtotal General Fund	241,871,225
Capital Projects Fund - Local Revenue	241,651,000
Debt Service Fund - Local Revenue	204,936,774
Voted/Board Leeway - State Revenue	17,132,384
School Building Program - State Revenue	27,288,900
<b>Total Formula Revenue:</b>	<b>\$732,880,283</b>
2005 District ADM (Excluding Charters)	484,766
Estimated Fall 2006 CS Enrollment	18,867
<b>FY 2007 LRF Per Student (Statutory Formula)</b>	<b>\$1,142</b>
<b>FY 2007 LRF Per Student (Revised Formula I)</b>	<b>\$1,420</b>
<b>FY 2007 LRF Per Student (Revised Formula II Change)</b>	<b>\$1,512</b>
FY 2007 Total MSP Appropriation	\$28,523,552
Less Ongoing Base in MSP	12,559,950
<b>Total FY 2007 New Revenue Needed:</b>	<b>\$15,963,602</b>
<b>Total FY 2007 Revenue Needed (Statutory Formula):</b>	<b>8,992,052</b>
<b>FY 2007 Incremental Difference:</b>	<b>6,971,550</b>

<sup>1</sup> Utah Foundation Research Report. "Challenges Facing Utah Charter Schools." Farnsworth, H., Kroes, S. October 2005. Available at: [www.utahfoundation.org](http://www.utahfoundation.org)



**APPENDIX B – REVISED FORMULA I**

Minimum School Program - Charter School Local Replacement Funding						
Revised Formula I - Replacing Debt Service Expenditures on Interest to Revenue Collected from Local Property Tax						
FY 2007 (2006 School Year)						
Formula Estimates for Growth in Charter School Students						
	A	B	C	D	E	F
School District	Local Property Tax Revenue					Formula Total
	General Fund	Less MSP Basic Rate	Subtotal	Capital Projects Fund	Debt Service	
Alpine	36,139,977	17,473,659	18,666,318	9,253,936	32,539,601	60,459,855
Beaver	1,903,364	857,558	1,045,806	266,929	1,744,234	3,056,969
Box Elder	7,055,299	4,133,160	2,922,139	2,675,680	3,679,061	9,276,880
Cache	9,000,563	4,027,293	4,973,270	566,374	6,343,839	11,883,483
Carbon	6,169,704	3,268,625	2,901,079	3,792,867	1,573,865	8,267,811
Daggett	424,610	364,820	59,790	229,430	199,841	489,061
Davis	47,658,344	22,189,124	25,469,220	10,046,025	28,899,586	64,414,831
Duchesne	2,613,904	1,389,016	1,224,888	3,325,425	140,329	4,690,642
Emery	4,696,260	2,586,978	2,109,282	2,914,854	491,592	5,515,728
Garfield	940,357	721,523	218,834	1,075,091	1,123,182	2,417,107
Grand	1,859,313	1,300,138	559,175	1,453,417	798,080	2,810,672
Granite	69,045,906	29,670,424	39,375,482	43,155,833	0	82,531,315
Iron	6,968,907	3,862,379	3,106,528	2,132,768	6,422,066	11,661,362
Jordan	71,302,163	33,229,083	38,073,080	65,009,276	30,822,561	133,904,917
Juab	1,194,823	879,347	315,476	1,360,356	853,747	2,529,579
Kane	1,989,399	1,378,326	611,073	914,544	630,561	2,156,178
Millard	6,624,932	3,548,623	3,076,309	3,469,687	1,852,832	8,398,828
Morgan	1,333,062	1,043,480	289,582	1,381,349	460,851	2,131,782
Nebo	15,191,002	7,372,776	7,818,226	6,746,935	15,769,201	30,334,362
North Sanpete	2,009,543	874,987	1,134,556	655,694	566,820	2,357,070
North Summit	1,414,232	974,813	439,419	1,450,989	784,849	2,675,257
Park City	22,058,310	11,024,729	11,033,581	6,350,854	7,017,451	24,401,886
Piute	181,505	120,328	61,177	111,617	100,693	273,487
Rich	917,119	610,254	306,865	505,269	482,836	1,294,970
San Juan	1,262,445	867,022	395,423	2,138,656	647,782	3,181,861
Sevier	2,761,767	1,539,543	1,222,224	1,443,093	1,675,850	4,341,167
South Sanpete	1,734,455	750,689	983,766	491,737	1,108,568	2,584,071
South Summit	3,615,753	2,249,254	1,366,499	2,166,461	733,816	4,266,776
Tintic	120,613	53,747	66,866	21,260	127,797	215,923
Tooele	5,025,279	3,347,148	1,678,131	3,618,953	8,158,304	13,455,388
Uintah	4,931,130	3,788,934	1,142,196	7,345,392	0	8,487,588
Wasatch	6,930,361	3,778,454	3,151,907	2,963,981	2,632,591	8,748,479
Washington	22,036,114	12,409,699	9,626,415	4,707,275	19,252,423	33,586,113
Wayne	424,206	320,127	104,079	477,417	0	581,496
Weber	18,730,937	10,072,704	8,658,233	8,685,201	7,093,585	24,437,019
Salt Lake	54,631,176	24,873,633	29,757,543	15,567,703	10,607,486	55,932,732
Ogden	9,674,304	4,865,324	4,808,980	8,287,229	1,419,584	14,515,793
Provo	12,540,548	7,220,277	5,320,271	7,408,371	3,871,385	16,600,027
Logan	5,218,533	2,731,012	2,487,521	3,210,938	2,125,956	7,824,415
Murray	9,568,271	4,258,255	5,310,016	4,272,134	2,183,969	11,766,119
<b>State Total:</b>	<b>477,898,490</b>	<b>236,027,265</b>	<b>241,871,225</b>	<b>241,651,000</b>	<b>204,936,774</b>	<b>688,458,999</b>
					Prior Year (FY 2006) CS LRF Per Student:	1,051
					FY 2007 Local Replacement Funding Per Student:	1,142
					Total ADM 2005 (Excluding Charter Schools):	484,766
					FY 2007 Local Replacement Funding Per Student:	1,420
					Estimated Charter School Enrollment Fall 2006:	18,867
					FY 2006 CS LRF Appropriation in MSP:	12,559,950
					FY 2007 (SY 2006) Total CS LRF Revenue Needed:	26,794,684
					Less Ongoing Base:	(12,559,950)
					<b>FY 2007 New Revenue Required:</b>	<b>14,234,734</b>
					<b>FY 2007 Revenue Required (Statutory Formula):</b>	<b>8,992,052</b>
					<b>FY 2007 Incremental Difference:</b>	<b>5,242,683</b>

Source: Utah State Office of Education, Finance and Statistics Section

Annual Financial Report - 2005, Estimated Charter School Enrollment, 2005 ADM.

Prepared by: Office of the Legislative Fiscal Analyst (12/05BL).

APPENDIX C – REVISED FORMULA II

School District	A		B		C		D		E		G		H		I	
	General Fund	Less MSP Basic Rate	Local Property Tax Revenue	Capital Projects Fund	Debt Service	State Funds Voted & Board	School Building State Total	Formula Total	General Fund	Less MSP Basic Rate	Local Property Tax Revenue	Capital Projects Fund	Debt Service	State Funds Voted & Board	School Building State Total	Formula Total
Alpine	36,139,977	17,473,659	18,666,318	9,253,936	32,539,601	2,832,275		63,292,130								
Beaver	1,903,364	857,558	1,045,806	1,045,806	1,045,806	0		1,744,234								3,056,969
Box Elder	7,055,299	4,133,160	2,922,139	2,675,680	3,679,061	180,221		1,744,234								9,457,101
Cache	9,000,563	4,027,293	4,973,270	566,374	6,343,839	1,576,173		3,679,061								13,459,656
Carbon	6,169,704	3,268,625	2,901,079	3,792,867	1,573,865	0		1,576,173								8,267,811
Daggett	424,610	364,820	59,790	229,430	199,841	0		3,792,867								489,061
Davis	47,658,344	22,189,124	25,469,220	10,046,025	28,899,586	1,975,256		199,841								66,390,087
Duchesne	2,613,904	1,389,016	1,224,888	3,325,425	140,329	308,714		28,899,586								4,999,356
Emery	4,696,260	2,586,978	2,109,282	2,914,854	491,592	0		308,714								5,515,728
Garfield	940,357	721,534	218,834	1,075,091	1,123,182	0		491,592								2,417,107
Grand	1,859,313	1,300,138	559,175	1,453,417	798,080	0		1,123,182								2,810,672
Granite	69,045,906	29,670,424	39,375,482	43,155,833	0	6,422,066		0								82,531,315
Iron	6,968,907	3,862,379	3,106,528	2,132,768	6,422,066	0		6,422,066								11,661,362
Jordan	71,302,163	33,229,083	38,073,080	65,009,276	30,822,561	0		30,822,561								133,904,917
Juab	1,194,823	879,347	315,476	1,360,356	853,747	2,752		2,752								2,532,331
Kane	1,989,399	1,378,326	611,073	914,544	630,561	0		853,747								2,156,178
Millard	6,624,932	3,548,623	3,076,309	3,469,687	1,852,832	0		630,561								8,398,828
Morgan	1,333,062	1,043,480	289,582	1,381,349	460,851	0		1,852,832								2,131,782
Nebo	15,191,002	7,372,776	7,818,226	6,746,935	15,769,201	1,443,139		460,851								31,777,501
North Sanpete	2,009,543	874,987	1,134,556	655,694	566,820	181,056		15,769,201								2,538,126
North Summit	1,414,252	974,813	439,419	1,450,989	784,849	0		566,820								2,675,257
Park City	22,058,310	11,024,729	11,033,581	6,350,854	7,017,451	0		784,849								24,401,886
Piute	181,505	120,328	61,177	111,617	100,693	60,357		100,693								333,844
Rich	917,119	610,254	306,865	505,269	482,836	0		100,693								1,294,970
San Juan	1,262,445	867,022	395,423	2,138,656	647,782	161,262		482,836								3,343,123
Sevier	2,761,767	1,539,543	1,222,224	1,443,093	1,675,850	265,446		647,782								4,606,613
South Sanpete	1,734,455	750,689	983,766	491,737	1,108,568	680,222		1,675,850								3,264,293
South Summit	3,615,753	2,249,254	1,366,499	2,166,461	733,816	0		491,737								4,266,776
Tintic	120,613	53,747	66,866	21,260	127,797	262,705		733,816								478,628
Tooele	5,025,279	3,347,148	1,678,131	3,618,953	8,158,304	408,962		127,797								13,864,350
Utah	4,931,130	3,788,934	1,142,196	7,345,392	0	0		8,158,304								8,487,588
Wasatch	6,930,361	3,778,454	3,151,907	2,963,981	2,632,591	0		0								8,748,479
Washington	22,036,114	12,409,699	9,626,415	4,707,275	19,252,423	5,915		2,632,591								33,586,113
Wayne	424,206	320,127	104,079	477,417	0	0		19,252,423								587,411
Weber	18,730,937	10,072,704	8,658,233	8,685,201	7,093,585	980,630		0								25,417,649
Salt Lake	54,631,176	24,873,633	29,757,543	15,567,703	10,607,486	0		980,630								55,932,732
Ogden	9,674,304	4,865,324	4,808,980	8,287,229	1,419,584	244,692		10,607,486								14,760,485
Provo	12,540,548	7,220,277	5,320,271	7,408,371	3,871,385	0		244,692								16,600,027
Logan	5,218,533	2,731,012	2,487,521	3,210,938	2,125,956	0		3,871,385								7,824,415
Murray	9,568,271	4,258,255	5,310,016	4,272,134	2,183,969	0		2,125,956								11,766,119
Unallocated						5,562,604										5,562,604
<b>State Total:</b>	<b>477,898,490</b>	<b>236,027,265</b>	<b>241,871,225</b>	<b>241,651,000</b>	<b>204,936,774</b>	<b>17,132,384</b>		<b>204,936,774</b>						<b>27,288,900</b>		<b>732,880,283</b>

Prior Year (FY 2006) CS LRF Per Student:	1,051
FY 2007 Local Replacement Funding Per Student:	1,142
FY 2007 LRF Per Student (Revised Formula):	1,420
Total ADM 2005 (Excluding Charter Schools):	484,766
FY 2007 Local Replacement Funding Per Student:	1,512
Estimated Charter School Enrollment Fall 2006:	18,867
FY 2006 CS LRF Appropriation in MSP:	12,559,950
FY 2007 (SY 2006) Total CS LRF Revenue Needed: Less Ongoing Base:	28,523,552 (12,559,950)
<b>FY 2007 New Revenue Required:</b>	<b>15,963,602</b>
<b>FY 2007 Revenue Required (Statutory Formula):</b>	<b>8,992,052</b>
<b>FY 2007 Incremental Difference:</b>	<b>6,971,550</b>

Source: Utah State Office of Education, Finance and Statistics Section  
Annual Financial Report - 2005, Estimated Charter School Enrollment, 2005 ADM.  
Prepared by: Office of the Legislative Fiscal Analyst (12/05BL).