

Issue Brief – School Start-up and Building Leases

STATE BOARD OF EDUCATION – STATE CHARTER SCHOOL BOARD

PED IB-SCSB 2

SUMMARY

The Legislature created the State Charter School Board during the 2004 General Session. The Board authorizes and promotes the establishment of charter schools and advises the State Board of Education on charter school issues. Further, the Board has a total of four FTE employees to support its operations, oversee charter school operations, and coordinate functions with other Utah State Office of Education staff. Budgetary items distributed by formula to all charter schools may be found in the Minimum School Program. Additional budget items, such as special budget initiatives and program funds not dispersed to all charter schools are appropriated through the State Charter School Board.

OBJECTIVE

This brief provides information on two issues facing charter school; adequate revenue to start a new school, and the payment of property tax through lease payments.

DISCUSSION AND ANALYSIS

The State Board of Education requests two budget items aimed at helping charter schools meet the task of opening and operating a charter school. Charter schools face several challenges in their first year of operation; one of the greatest challenges is securing sufficient revenue to cover the first-time capital expenditures associated with opening a school. Because many charter schools lease building space to house the school, a portion of their lease payment is used by the owner to pay property taxes. The Board requests the following items to address these two budget issues facing charter schools.

Charter School Start-up Funding - \$5,200,000

The Legislature first appropriated funds to support charter school start-up costs in FY 1999. Appropriators have followed this initial start-up funding with further allocations in FY 2002 and FY 2006. Due to the one-time nature of start-up funds and the infrequency of appropriation only select schools have benefited from state start-up appropriations. In addition to state funds, the State Board of Education has received federal start-up funds through a Department of Education grant.

FY 1999

The first start-up fund appropriation was made during the 1998 General Session. Legislators appropriated \$500,000 in one-time Uniform School Funds to fund a “Charter School Plan Start-up Costs.” These funds were distributed to the original 8 charter schools and to support policy making functions at the USOE.

FY 2002

Two appropriations were made relating to charter school start-up costs. First, the Legislature appropriated \$225,500 in one-time Uniform School Funds to assist in initial costs for schools chartered by the State Board of Education. Schools chartered by local school boards did not receive start-up funds unless the local board allocated them from local sources.

Second, Governor Leavitt introduced the “High Tech High School” initiative. This initiative provided \$2,000,000 in one-time Uniform School Funds (originally \$3,000,000 but was reduced during the 2002 Special Session

Public Education: Charter School Start-up Funding		
History of Appropriations		
Fiscal Year	Amount	Purpose
1998	\$550,000	To fund a Charter School Plan Start-up Costs
2002	\$225,500	To assist in initial costs for schools chartered by the State Board of Education.
2002	\$2,000,000	Supported the initial phase of the "High-Tech" high school initiative.
2006	\$2,800,000	Equalized the per student allocation to qualifying charter schools when combined with a per school federal grant.

budget cuts by \$1 million) to establish the State Board chartered “high-tech” high schools. The program envisioned 6 high-tech high schools, but only the first three received start-up support. As of Fall 2005, the remaining three schools have either started operations or are in development. These schools have not received start-up support from the Legislature.

FY 2006

The federal grant for charter school start-up costs received by the State Board of Education allocates \$150,000 for each newly chartered school. During the 2005 General Session, equity questions were raised in regards to grant allocation. Because of the huge difference in individual school enrollment (ranging from 150 to over 1,200) per student, allocations for each school varied significantly. A school enrolling only 150 students would receive \$1,000 per student compared to a school of 1,275, which would receive \$118 per student.

The Legislature provided \$2.8 million in one-time Uniform School Fund revenue to equalize the federal start-up grant on a per student basis. The equalization estimate of \$2.8 million was based on an average of \$860 for each charter school student. A total of \$860 per student was negotiated between estimates of remaining available revenue and an estimate of prior year per student start-up allocations.

Legislators also approved intent language to direct the State Board of Education in allocating these start-up funds. The intent language reads:

It is the intent of the Legislature that the \$2,800,000 in one-time Uniform School Fund revenue appropriated to the State Board of Education – State Charter School Board be used to equalize revenue received through the federal charter school start-up grant for charter schools that begin operations in fall 2005. When combined with per school allocations provided by the federal start-up grant, the Uniform School Fund appropriation shall be used to provide up to \$860 per student enrolled in a qualifying school to support start-up costs.

The distribution of the federal grant requires a per school allocation of \$150,000. Each qualifying school received their \$150,000 federal allocation under the equalization plan. However, schools with greater enrollment will receive a per student equalization allocation from the state Uniform School Fund appropriation. In any case, the state fund allocation may not exceed \$860 per student when combined with the calculated per student amount of the federal grant.

Public Education: Charter School Start-up Funding
Estimates to Equalize the Federal Charter School Start-up Grant
FY 2006

Charter School	Estimated New Charter School Enrollment	Per School Federal Grant Amount	Per Student Federal Grant Amount	Amount Needed to Equalize to \$860/Student	Total State Fund Equalization Needed
Behive Science and Technology Academy	150	150,000	1,000	0	0
Success Academy	200	150,000	750	110	22,000
Utah County Academy of Sciences	200	150,000	750	110	22,000
Wasatch Peak Academy	350	150,000	429	431	151,000
Odyssey Charter School	375	150,000	400	460	172,500
North Star Academy	450	150,000	333	527	237,000
Lincoln Academy	480	150,000	313	548	262,800
Thomas Edison Charter School - South	504	150,000	298	562	283,440
American Preparatory Academy - West	510	150,000	294	566	288,600
Ronald Reagan Academy	675	150,000	222	638	430,500
American Achievement Academy	1,275	150,000	118	742	946,500
Total	5,169	\$1,650,000			\$2,816,340

Recommendation: The Analyst recommends that the subcommittee prioritize \$3,100,000 in one-time Uniform School Fund revenue to support new charter schools approved by the State Charter School Board to open in fall 2006. Further the Analyst recommends that the Legislature pass intent language requesting the State Board of Education, in consultation with the State Charter School Board, develop a start-up fund distribution formula to direct this and any future appropriations for charter school start-up funds. This process should include a method to equalize start-up revenue received from state and federal governments on a per-student basis or per-school basis as determined by the board. The subcommittee may wish to have the State Board of Education report on this issue prior to the 2007 General Session.

Recommendation: The Analyst recommends that the subcommittee prioritize among other items before the subcommittee, \$2,100,000 in one-time Uniform School Fund revenue to provide start-up funds for the remaining 3 high tech high schools.

Building Leases – Property Tax Reimbursement

The majority of charter schools operate in leased facilities. Because of this, a charter school's lease payment includes a portion to pay the property taxes owed by the owner of the building. By law, school districts do not pay property tax. The State Charter School Board has requested an FY 2006 Supplemental amount of \$747,600 in Uniform School Fund revenue to reimburse charter schools for property taxes paid during FY 2006. Further, the Board requests \$1,355,900 in ongoing Uniform School Funds to reimburse charter schools for property taxes paid in FY 2007 and the subsequent fiscal years.

This proposal raises a significant public policy question the Legislature may wish to consider. Namely, should the Legislature adopt the policy of reimbursing a state entity for property taxes paid as a component of a lease agreement? Although this proposal directly impacts the operating revenues of charter schools, many other state agencies, school districts, and private non-profit organizations with facility leases likely pay property tax as a component of that lease. In addition to charter schools, the Utah State Office of Rehabilitation and the Utah Schools for the Deaf and Blind, as well as some school districts (relocate-able classrooms) lease facility space.

Recommendation: The subcommittee may wish to prioritize the request for property tax reimbursement with the other items before the subcommittee. Further, because this request only remedies the issue for charter schools, the Legislature may wish to study the impact these payments have on other state agencies, local governments, school districts, higher education institutions, and non-profit entities and develop a more comprehensive public policy solution.

LEGISLATIVE ACTION

This section provides a guide of what actions might be taken if the Legislature wishes to adopt the recommendations presented in this brief.

1. Consider prioritizing an appropriation \$3,100,000 in one-time Uniform School Fund revenue to provide start-up grants to the charter schools approved by the State Charter School Board that will begin operations in fall 2006.
2. Pass intent language directing that the State Board of Education develop a distribution formula for start-up funds appropriated by the Legislature. This formula should equalize, on a per-student or per-school basis, the revenue received from the state and federal government.
3. Prioritize the requested increase of \$2,100,000 in one-time Uniform School Fund revenue provide the remaining 3 high tech charter schools with start-up funding.
4. Evaluate the request by the charter schools to reimburse them for property taxes paid as a component of a building lease.