

Issue Brief – Local Replacement Formula

MINIMUM SCHOOL PROGRAM

NUMBER MSP 10

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.

DISCUSSION AND ANALYSIS

Charter School Enrollment

Student enrollment in charter schools has grown significantly over the past several years. In fall 2006, charter schools enrolled 19,211 students. Fall 2007 (FY 2008) estimates indicate that approximately 24,079 students will enroll in charter schools – a 25.3 percent increase. Figure 1 provides an enrollment history for charter schools.

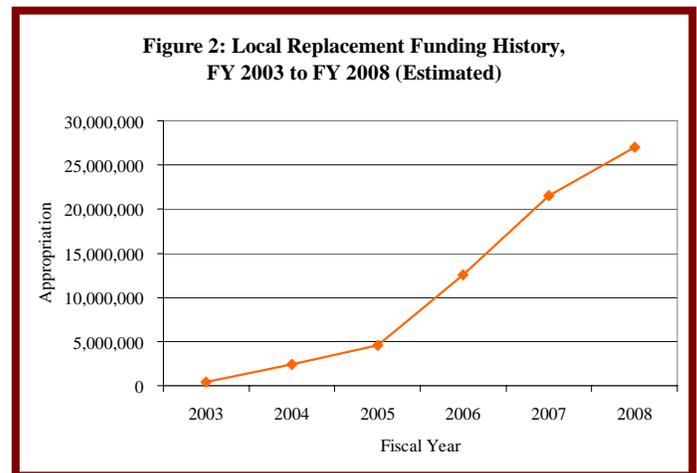
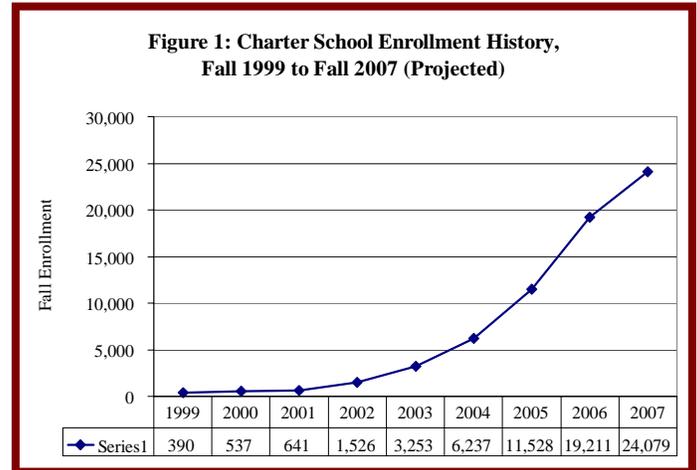
Origins of the Local Replacement Funding Program

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 statutory formula 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 on formula components and funding levels. Figure 2 provides a history of Charter School Local Replacement funding since its inception.



FY 2008 Base Budget – H.B. 3 “Minimum School Program Base Budget Amendments” includes an appropriation sufficient to provide \$1,142 (FY 2007 rate) for 23,662 students. Since the preparation of the base budget bill, minor adjustments in enrollment projections indicate a total fall enrollment of 24,079, a difference of 417 students. The cost to provide the FY 2007 Local Replacement rate for these students is \$476,200.

In addition to student growth, the Local Replacement Formula adjusts each year based on the growth in local property tax revenues. Adjusting the per student rate for this local revenue growth provides an additional \$42 per student enrolled in a charter school. The cost to provide the increased per student rate for each of the 24,079 students anticipated to enroll in charter schools is \$1,011,300. The total cost for the adjustment in the number of students and the per student rate is approximately \$1,487,500.

Recommendation: The Analyst recommends that the Legislature provide \$1,487,500 in Uniform School Fund revenue to support new students anticipated to enroll in charter school in FY 2008 and to adjust the per student Local Replacement Funding rate.

Formula Change Adopted in the 2006 General Session

Subsequent to passing the Local Replacement Funding Formula, the Legislature received information that the statutory formula does not reflect the level of local revenue generated by the school districts. The statutory formula uses debt service expenditures instead of debt service revenues as one of the components driving the per student rate. Legislators selected debt service expenditures in order to ensure that school district bond revenue was not double counted in the formula. Essentially, the Legislature wanted to avoid double counting bond proceeds and the taxes used to replay the bond.

Over the past several years attempts have surfaced to change the Local Replacement Funding Formula. The current formula does not reflect the original intent of the Legislature when the formula was established; to provide charter schools with a replacement of approximately the same revenue (based on the state average) that a school district retains when a student enrolls in a charter school.

During the 2006 General Session, the Public Education Appropriations Subcommittee adopted a new formula to derive the per student rate. However, this new formula was not adopted by the Legislature. Developed by the Utah State Office of Education, the new formula provides a simpler way of determining the Local Replacement Funding rate. The formula essentially takes all locally generated property tax revenues, less revenue from taxes equalized by through the Minimum School Program, and including state tax guarantee funding provided for the Voted & Board Leeways and the Capital Outlay Foundation.

Appendix B provides more information on the individual components of the formula adopted during the 2006 General Session. The new formula provides a total of \$1,527 per student, an increase of \$385 over the current statutory rate of \$1,142. To provide the new rate for the FY 2008 anticipated charter school enrollment of 24,079 students, an additional \$9,740,000 is required over the base funding provided in H.B. 3 (2007 General Session).

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. The Analyst recommends that the Legislature provide an additional \$1,487,500 to provide the per student rate for local replacement funding as outlined in statute.
2. The Analyst recommends that the Legislature consider the formula adopted by the Public Education Appropriations Subcommittee during the 2006 General Session and provide a local replacement based on the adopted formula. Providing this level of funding requires an additional \$9,740,000.

The Analyst further recommends that the Legislature pursue options of recapturing some of the local property tax revenue generated by a school district that has resident students attending a charter school. Concerns of long-term sustainability of Local Replacement Funding by the state surfaced during the 2006 General Session. With rapidly increasing charter school enrollments, the annual state funding required to support the Local Replacement program has also increased rapidly.

One solution may exist in a local revenue sharing mechanism developed in statute under the state's open enrollment provisions. Statute requires school districts to transfer local revenues to another school district when a student chooses to enroll in the receiving school district. Statute reads "the State Board of Education shall adopt rules providing that the resident district pay the nonresident district, for each of the resident district's students who enroll in the nonresident district, 1/2 of the amount by which the resident district's per student expenditure exceeds the value of the state's contribution." (UCA 53A-2-210).

The Analyst recommends that this same transaction occur when a resident of a school district transfers to a charter school. However, instead of the school district paying the charter school directly, the district would pay the state. Revenue collected under this transfer provision by the state could become a revenue source to the Local Replacement Funding Program.

APPENDIX A – STATUTORY FORMULA

| Minimum School Program - Charter School Local Replacement Funding Based on Current Formula in Statute - UCA 53A-1a-513(4) FY 2008 (2007 School Year) Formula Estimates for Growth in Charter School Students | | | | | | | |
|---|----------------------------|---------------------|--------------------|-----------------------|-------------------------|---|--------------------|
| School District | A | B | C | D | E | F | |
| | Local Property Tax Revenue | | | | Expenditures | | Formula Total |
| | General Fund | Less MSP Basic Rate | Subtotal | Capital Projects Fund | Debt Service - Interest | | |
| Alpine | 39,058,492 | 18,122,273 | 20,936,219 | 10,070,108 | 13,584,661 | | 44,590,988 |
| Beaver | 1,923,708 | 894,817 | 1,028,891 | 463,031 | 600,579 | | 2,092,501 |
| Box Elder | 6,929,354 | 4,400,018 | 2,529,336 | 2,643,581 | 190,000 | | 5,362,917 |
| Cache | 9,333,870 | 4,254,789 | 5,079,081 | 586,305 | 3,272,647 | | 8,938,033 |
| Carbon | 6,350,056 | 3,348,009 | 3,002,047 | 4,039,792 | 696,668 | | 7,738,507 |
| Daggett | 474,536 | 365,793 | 108,743 | 259,397 | 19,945 | | 388,085 |
| Davis | 49,725,325 | 19,760,353 | 29,964,972 | 10,618,429 | 11,009,634 | | 51,593,035 |
| Duchesne | 2,903,781 | 1,618,743 | 1,285,038 | 3,689,553 | 0 | | 4,974,591 |
| Emery | 4,815,940 | 2,483,697 | 2,332,243 | 2,674,804 | 77,442 | | 5,084,489 |
| Garfield | 1,050,770 | 735,118 | 315,652 | 1,063,259 | 341,141 | | 1,720,052 |
| Grand | 2,118,065 | 1,199,950 | 918,115 | 1,286,940 | 305,181 | | 2,510,236 |
| Granite | 73,891,784 | 32,935,574 | 40,956,210 | 44,523,264 | 0 | | 85,479,474 |
| Iron | 7,749,699 | 4,151,650 | 3,598,049 | 2,340,973 | 2,730,483 | | 8,669,505 |
| Jordan | 76,635,360 | 36,941,110 | 39,694,250 | 65,672,339 | 7,990,300 | | 113,356,889 |
| Juab | 1,351,796 | 1,010,360 | 341,436 | 1,658,402 | 387,265 | | 2,387,103 |
| Kane | 2,116,001 | 1,476,906 | 639,095 | 943,692 | 220,003 | | 1,802,790 |
| Millard | 6,422,737 | 3,337,599 | 3,085,138 | 4,058,096 | 82,109 | | 7,225,343 |
| Morgan | 1,566,348 | 1,068,545 | 497,803 | 1,594,321 | 116,484 | | 2,208,608 |
| Nebo | 15,531,229 | 7,397,860 | 8,133,369 | 7,130,799 | 6,704,053 | | 21,968,221 |
| North Sanpete | 2,017,406 | 904,139 | 1,113,267 | 788,500 | 150,242 | | 2,052,009 |
| North Summit | 1,405,294 | 949,604 | 455,690 | 1,407,258 | 433,543 | | 2,296,491 |
| Park City | 23,066,642 | 11,575,409 | 11,491,233 | 7,015,106 | 1,805,087 | | 20,311,426 |
| Piute | 184,897 | 117,452 | 67,445 | 116,766 | 13,813 | | 198,024 |
| Rich | 1,118,901 | 648,828 | 470,073 | 550,709 | 214,929 | | 1,235,711 |
| San Juan | 1,276,008 | 857,370 | 418,638 | 2,243,910 | 209,709 | | 2,872,257 |
| Sevier | 2,869,663 | 1,594,771 | 1,274,892 | 1,506,305 | 809,018 | | 3,590,215 |
| South Sanpete | 1,762,575 | 727,469 | 1,035,106 | 510,343 | 88,620 | | 1,634,069 |
| South Summit | 3,483,715 | 1,850,185 | 1,633,530 | 2,049,674 | 104,320 | | 3,787,524 |
| Tintic | 0 | 48,650 | (48,650) | 0 | 0 | | (48,650) |
| Tooele | 5,159,112 | 3,620,134 | 1,538,978 | 3,845,959 | 3,314,582 | | 8,699,519 |
| Uintah | 5,091,966 | 4,158,523 | 933,443 | 8,051,629 | 0 | | 8,985,072 |
| Wasatch | 7,756,047 | 3,438,000 | 4,318,047 | 3,105,058 | 878,113 | | 8,301,218 |
| Washington | 25,035,617 | 14,394,620 | 10,640,997 | 6,140,376 | 6,681,570 | | 23,462,943 |
| Wayne | 448,326 | 340,077 | 108,249 | 456,525 | 0 | | 564,774 |
| Weber | 19,146,631 | 9,981,123 | 9,165,508 | 10,387,838 | 3,487,232 | | 23,040,578 |
| Salt Lake | 53,369,481 | 23,474,958 | 29,894,523 | 14,693,708 | 5,680,667 | | 50,268,898 |
| Ogden | 9,485,969 | 4,648,995 | 4,836,974 | 9,299,440 | 10,000 | | 14,146,414 |
| Provo | 12,801,542 | 6,900,558 | 5,900,984 | 6,556,002 | 1,540,242 | | 13,997,228 |
| Logan | 5,285,299 | 2,704,291 | 2,581,008 | 3,406,676 | 911,193 | | 6,898,877 |
| Murray | 9,616,049 | 4,474,977 | 5,141,072 | 4,147,465 | 1,206,936 | | 10,495,473 |
| State Total: | 500,329,991 | 242,913,297 | 257,416,694 | 251,596,332 | 75,868,411 | | 584,881,437 |

| | |
|--|------------------|
| Prior Year (FY 2007) CS LRF Per Student: | 1,142 |
| Total ADM 2006 (Excluding Charter Schools): | 494,023 |
| FY 2008 Local Replacement Funding Per Student: | 1,184 |
| Estimated Charter School Enrollment Fall 2007: | 24,079 |
| FY 2008 Ongoing Base Appropriation in MSP: | 27,021,488 |
| FY 2008 (SY 2007) Total CS LRF Revenue Needed: | 28,507,499 |
| Less Ongoing Base: | (27,021,488) |
| FY 2007 New Revenue Required: | 1,486,011 |

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

Annual Financial Report - 2006, Estimated Charter School Enrollment, 2006 ADM.

Prepared by: Office of the Legislative Fiscal Analyst (01/07BL).

APPENDIX B – NEW FORMULA COMPONENTS

| School District | Local Property Tax Revenue | | | | | | | | | | State Revenues | | | | | Total per Student Amount |
|---------------------|----------------------------|--------------------|--------------------|---------------------|-------------------|----------------------|--------------------|-------------------|------------------|-------------------|-------------------|--------------------|----------------|--------------|--|--------------------------|
| | General Fund | Debt Service | Capital Projects | Less MSP Basic Rate | Less Reading Levy | Less Special Transp. | Subtotal Local | Voted Leeway | Board Leeway | School Building | Subtotal | Total Revenue | Total ADM | | | |
| Alpine | 39,058,492 | 37,880,191 | 10,070,108 | 18,122,273 | 0 | 1,864,905 | 67,021,613 | 3,524,753 | 1,084,539 | 8,077,381 | 12,686,673 | 79,708,286 | 54,342 | 1,467 | | |
| Beaver | 1,923,708 | 1,799,565 | 463,031 | 894,817 | 33,296 | 104,049 | 3,154,142 | 0 | 0 | 23,793 | 23,793 | 3,177,935 | 1,529 | 2,079 | | |
| Box Elder | 6,929,354 | 3,968,818 | 4,400,018 | 4,400,018 | 309,536 | 314,652 | 8,517,547 | 219,697 | 146,465 | 241,109 | 607,271 | 9,124,818 | 10,527 | 867 | | |
| Cache | 9,333,870 | 6,184,647 | 586,305 | 4,254,789 | 0 | 368,583 | 11,481,450 | 1,602,976 | 400,744 | 2,028,844 | 4,032,564 | 15,514,014 | 13,335 | 1,163 | | |
| Carbon | 6,350,056 | 1,582,713 | 4,039,792 | 3,348,009 | 0 | 525,560 | 8,098,992 | 0 | 0 | 0 | 0 | 8,098,992 | 3,433 | 2,359 | | |
| Daggett | 474,536 | 187,921 | 259,397 | 365,793 | 24,032 | 36,579 | 495,450 | 0 | 0 | 0 | 0 | 495,450 | 155 | 3,205 | | |
| Davis | 49,725,325 | 31,707,295 | 10,618,429 | 19,760,353 | 1,367,139 | 1,769,239 | 69,154,318 | 2,827,165 | 706,791 | 6,907,335 | 10,441,291 | 79,595,609 | 61,634 | 1,291 | | |
| Duchesne | 2,903,781 | 406,401 | 3,689,553 | 1,618,743 | 110,112 | 188,226 | 5,082,654 | 193,151 | 96,576 | 316,896 | 606,623 | 5,689,277 | 3,913 | 1,454 | | |
| Emery | 4,815,940 | 537,658 | 2,674,804 | 2,483,697 | 93,860 | 433,202 | 5,017,643 | 0 | 0 | 0 | 0 | 5,017,643 | 2,298 | 2,183 | | |
| Garfield | 1,050,770 | 1,186,373 | 1,063,259 | 735,118 | 51,715 | 85,479 | 2,428,090 | 0 | 0 | 0 | 0 | 2,428,090 | 932 | 2,604 | | |
| Grand | 2,118,065 | 1,286,940 | 1,199,950 | 1,199,950 | 81,625 | 64,881 | 2,837,158 | 0 | 0 | 5,552 | 5,552 | 2,842,710 | 1,455 | 1,954 | | |
| Granite | 73,891,784 | 0 | 44,523,264 | 32,935,574 | 2,316,981 | 1,340,402 | 81,822,091 | 0 | 0 | 0 | 0 | 81,822,091 | 67,545 | 1,211 | | |
| Iron | 7,749,699 | 8,670,278 | 2,340,973 | 4,151,650 | 0 | 489,991 | 14,119,309 | 0 | 0 | 360,856 | 360,856 | 14,480,165 | 8,204 | 1,765 | | |
| Jordan | 76,635,360 | 37,253,895 | 65,672,339 | 36,941,110 | 2,598,765 | 3,436,333 | 136,585,336 | 0 | 16,546 | 43,620 | 60,166 | 137,882,831 | 77,505 | 1,779 | | |
| Juab | 1,351,796 | 1,001,879 | 1,658,402 | 1,010,360 | 31,133 | 71,665 | 2,898,919 | 0 | 0 | 0 | 0 | 2,959,085 | 1,997 | 1,482 | | |
| Kane | 2,116,001 | 909,313 | 943,692 | 1,476,906 | 97,888 | 205,221 | 2,188,991 | 0 | 0 | 0 | 0 | 2,188,991 | 1,191 | 1,839 | | |
| Millard | 6,422,737 | 1,055,462 | 4,058,096 | 3,337,599 | 234,796 | 479,294 | 7,484,606 | 0 | 0 | 0 | 0 | 7,484,606 | 2,923 | 2,560 | | |
| Morgan | 1,566,348 | 431,499 | 1,594,321 | 1,068,545 | 0 | 57,155 | 2,466,468 | 0 | 0 | 16,655 | 16,655 | 2,483,123 | 2,035 | 1,220 | | |
| Nebo | 15,531,229 | 16,561,716 | 7,130,799 | 7,397,860 | 520,430 | 335,484 | 30,969,970 | 2,219,055 | 739,685 | 4,564,829 | 7,523,569 | 38,493,539 | 24,825 | 1,551 | | |
| North Sanpete | 2,017,406 | 570,876 | 788,500 | 904,139 | 63,605 | 98,824 | 2,510,214 | 163,723 | 40,807 | 137,092 | 341,622 | 2,651,836 | 2,287 | 1,160 | | |
| North Summit | 1,405,294 | 849,621 | 1,407,258 | 949,604 | 0 | 149,066 | 2,563,503 | 0 | 0 | 5,552 | 5,552 | 2,569,055 | 978 | 2,628 | | |
| Park City | 23,066,642 | 6,552,044 | 7,015,106 | 11,575,409 | 141,328 | 901,805 | 24,015,250 | 0 | 0 | 0 | 0 | 24,015,250 | 4,290 | 5,598 | | |
| Piute | 184,897 | 99,769 | 116,766 | 117,452 | 8,194 | 5,804 | 269,982 | 34,677 | 39,682 | 54,880 | 129,239 | 399,221 | 296 | 1,347 | | |
| Rice | 1,118,901 | 475,457 | 550,709 | 648,828 | 0 | 52,812 | 1,443,427 | 0 | 0 | 0 | 0 | 1,443,427 | 419 | 3,444 | | |
| San Juan | 1,276,008 | 582,768 | 2,243,910 | 857,370 | 0 | 149,043 | 3,096,273 | 0 | 170,986 | 439,648 | 610,634 | 3,706,907 | 2,892 | 1,282 | | |
| Sevier | 2,869,663 | 1,904,952 | 1,506,305 | 1,594,771 | 112,190 | 278,158 | 4,295,801 | 210,461 | 140,307 | 334,154 | 684,922 | 4,980,723 | 4,286 | 1,162 | | |
| South Sanpete | 1,762,575 | 1,176,470 | 510,343 | 727,469 | 51,177 | 123,923 | 2,546,819 | 613,624 | 153,406 | 539,058 | 1,306,088 | 3,852,907 | 2,590 | 1,488 | | |
| South Summit | 3,483,715 | 711,206 | 2,049,674 | 1,850,185 | 130,158 | 258,165 | 4,006,087 | 0 | 47,282 | 72,427 | 367,961 | 4,006,087 | 1,335 | 3,000 | | |
| Tinic | 0 | 0 | 0 | 48,650 | 0 | 0 | (48,650) | 248,252 | 0 | 0 | 0 | 319,311 | 271 | 1,178 | | |
| Tooele | 5,159,112 | 8,506,577 | 3,845,959 | 3,620,134 | 0 | 420,946 | 13,470,568 | 521,827 | 0 | 2,395,482 | 2,917,309 | 16,387,877 | 11,771 | 1,392 | | |
| Utah | 5,091,966 | 0 | 8,051,629 | 4,158,523 | 157,153 | 725,324 | 8,102,595 | 0 | 0 | 0 | 0 | 8,102,595 | 5,482 | 1,478 | | |
| Wasatch | 7,756,047 | 3,287,579 | 3,105,058 | 3,438,000 | 0 | 505,706 | 10,204,978 | 0 | 0 | 141,170 | 141,170 | 10,346,148 | 4,331 | 2,389 | | |
| Washington | 25,035,617 | 19,777,844 | 6,140,376 | 14,394,620 | 1,012,643 | 753,206 | 34,793,368 | 0 | 0 | 1,302,254 | 1,302,254 | 36,095,622 | 23,078 | 1,564 | | |
| Wayne | 448,326 | 0 | 456,525 | 340,077 | 23,924 | 52,989 | 487,861 | 0 | 10,448 | 0 | 10,448 | 498,309 | 519 | 960 | | |
| Weber | 19,146,631 | 7,107,642 | 10,387,838 | 9,981,123 | 690,554 | 1,067,748 | 24,902,686 | 1,028,384 | 658,165 | 2,388,222 | 4,074,771 | 28,977,457 | 28,539 | 1,015 | | |
| Salt Lake | 53,369,481 | 13,280,642 | 14,693,708 | 23,474,958 | 1,624,138 | 0 | 56,244,735 | 0 | 74,984 | 511,323 | 820,320 | 56,244,735 | 23,321 | 2,412 | | |
| Ogden | 9,488,969 | 467,675 | 9,299,440 | 4,648,995 | 0 | 427,058 | 14,177,031 | 234,013 | 0 | 0 | 0 | 14,997,351 | 12,329 | 1,216 | | |
| Provo | 12,801,542 | 4,044,078 | 6,556,002 | 6,900,558 | 190,244 | 481,435 | 16,019,629 | 0 | 0 | 34,896 | 34,896 | 16,054,525 | 13,160 | 1,220 | | |
| Logan | 5,285,299 | 2,208,758 | 3,406,676 | 2,704,291 | 286,190 | 289,297 | 7,716,901 | 0 | 0 | 0 | 0 | 7,716,901 | 1,354 | 1,354 | | |
| Murray | 9,616,049 | 2,463,555 | 4,147,465 | 4,474,977 | 286,190 | 202,935 | 11,262,947 | 0 | 0 | 48,379 | 48,379 | 11,311,326 | 6,375 | 1,774 | | |
| State Total: | 500,329,991 | 226,171,726 | 251,596,332 | 242,913,297 | 12,362,806 | 19,115,194 | 703,706,752 | 13,641,758 | 4,527,413 | 32,288,902 | 50,458,073 | 754,164,825 | 494,023 | 1,527 | | |

Source: Utah State Office of Education, Finance and Statistics Section
 Annual Financial Report - 2006, Estimated Charter School Enrollment, 2006 ADM.
 Prepared by: Office of the Legislative Fiscal Analyst (01.07BL).