

Issue Brief – Local Replacement Formula

MINIMUM SCHOOL PROGRAM

NUMBER: MSP-07

SUMMARY

The Local Replacement Formula (LRF) program was established within the Minimum School Program to provide revenue to charter schools to assist in operation and capital 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 unavailable to charter schools.

DISCUSSION AND ANALYSIS

Student enrollment in charter schools has grown significantly over the past several years. In fall 2007, charter schools enrolled 22,196 students. Fall 2008 estimates indicate that 28,986 students will enroll in charter schools – an increase of 30.6 percent. Figure 1 provides an enrollment history for charter schools.

Program Origins

The LRF program began with the local school districts and the state sharing the costs of the program. The state provided half 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 funding inequities among the different charter schools, because only half the revenue was equalized with state funds. Revenue transfers also fostered tensions between districts and charter schools.

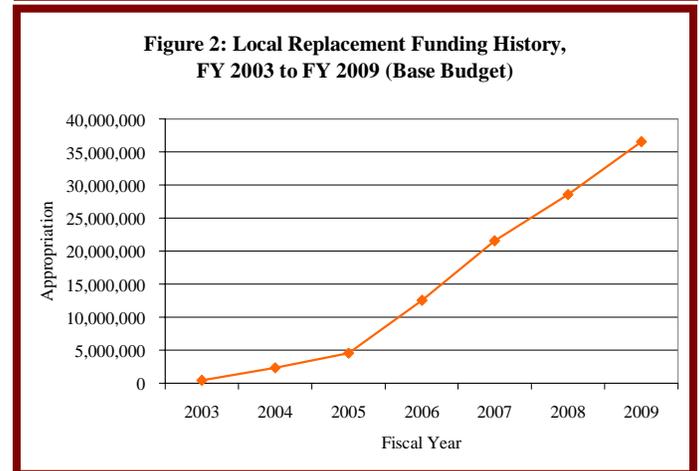
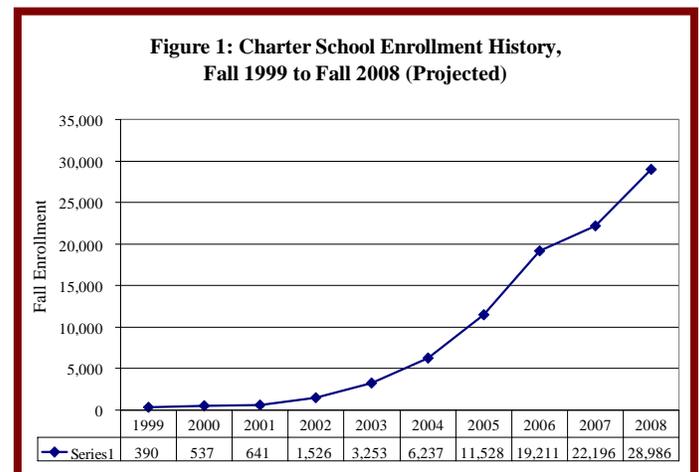
During the 2003 General Session, the Legislature developed a formula that allowed the local school districts to retain all locally generated property tax revenue. The state began providing an equalized average per student amount directly to charter schools to replace some of the locally generated revenues.

The Local Replacement Formula

The formula in statute calculates a statewide average for local property taxes generated per student in each of the 40 school districts. 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.” Figure 2 provides a history of Charter School Local Replacement funding since its inception in 2003.

Adjustments to the LRF Per-Student Rate

H.B. 1 “Minimum School Program Base Budget Amendments” increases the Local Replacement Formula appropriation by \$8,040,000 to provide \$1,184 (FY 2008 rate) for the estimated 6,790 in new charter school students expected in fall 2008.



The Local Replacement Formula also 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 \$57 per student, for a total rate of \$1,241 per student enrolled in a charter school.

HB 1 includes an ongoing base of \$36,549,000 supporting the Local Replacement Formula. The table titled "FY 2009 Local Replacement Formula" shows that the current base budget for FY 2009 is sufficient to provide for the Local Replacement Formula rate change. Providing \$1,241 for each charter school student anticipated in fall 2008 will cost \$35.9 million, which is \$585,600 less than the ongoing base budget. Enrollment estimates used to build the FY 2008 budget projected 24,079 charter school students in fall 2007. Actual enrollment counts indicate that 22,196 students enrolled in fall 2007, or 1,883 fewer than projected. Over-estimating the number of charter school students created a surplus in the ongoing appropriation sufficient to fund the FY 2009 rate change.

Local Replacement Formula Change

The creation of the LRF intended to provide charter schools with approximately the same revenue (based on the state average) that a school district retains when a resident student enrolls in a charter school. Subsequent to passing the LRF, it was found that the formula does not reflect the per-student local revenue generated in the districts.

During the 2006 General Session, the Public Education Appropriations Subcommittee adopted a new formula to adjust the per-student rate to better reflect district per-student revenues. However, this new formula was not adopted by the Legislature.

The new formula uses all locally generated property tax revenues (less the revenue from taxes equalized through the Minimum School Program) and includes state revenues supporting local property taxes. The table "FY 2009 – Estimate to Change to 2006 Formula" provides more detail on the new formula.

The new formula provides for a per-student LRF rate of \$1,617, an increase of \$376 over the current statutory rate of \$1,241. To provide the new rate for the FY 2009 anticipated charter school enrollment of 28,986, an additional \$10.9 million is required over the ongoing base budget.

- **Recommendation:** The Analyst recommends that the subcommittee prioritize \$10.9 million ongoing Uniform School Funds to provide the new per-student LRF rate in FY 2009.

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. Prioritize \$10.9 million in ongoing Uniform School Funds to provide \$1,617 per student enrolled in a charter school in fall 2008.

FY 2009 Local Replacement Formula - Current Statutory Formula	
General Fund - Local Revenue	\$541,268,046
Less MSP Basic Rate	(249,985,190)
Subtotal General Fund	291,282,856
Capital Projects Fund - Local Revenue	272,709,247
Debt Service Expenditures	79,433,472
Total Formula Revenue:	\$643,425,575
2007 Total ADM (Excluding Charters)	518,592
Estimated Fall 2008 CS Enrollment	28,986
FY 2009 Local Replacement Per Student	\$1,241
FY 2009 Total MSP Appropriation To Fund LRF Rate	\$35,963,404
Less Ongoing Base in MSP	(36,549,000)
Total FY 2009 New Revenue Needed:	(\$585,596)

FY 2009 - Estimate to Change to 2006 Formula	
Local Property Tax Revenue	
General Fund	\$541,268,046
Debt Service Fund	244,147,162
Capital Projects Fund	272,709,247
Local Property Tax Revenue - Adjustments	
Basic Levy Revenue	(249,985,190)
Board Leeway - K-3 Reading Program	(13,050,857)
Special Transportation	(18,453,727)
State Revenues Supporting Property Taxes	
Voted Leeway	18,726,942
Board Leeway	5,703,422
Capital Outlay Foundation & Enrollment Growth	37,288,900
Total Formula Revenue:	\$838,353,945
2007 Total ADM (Excluding Charters)	518,592
Estimated Fall 2008 CS Enrollment	28,986
Estimated Formula Rate Per Student:	\$1,617
Statutory Rate Per Student	\$1,241
Difference	376
Estimated Total Cost for Rate Change:	10,887,036