

# 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.

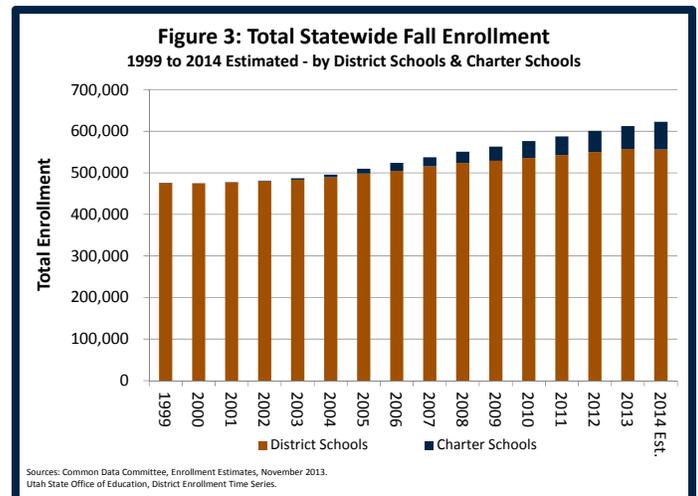
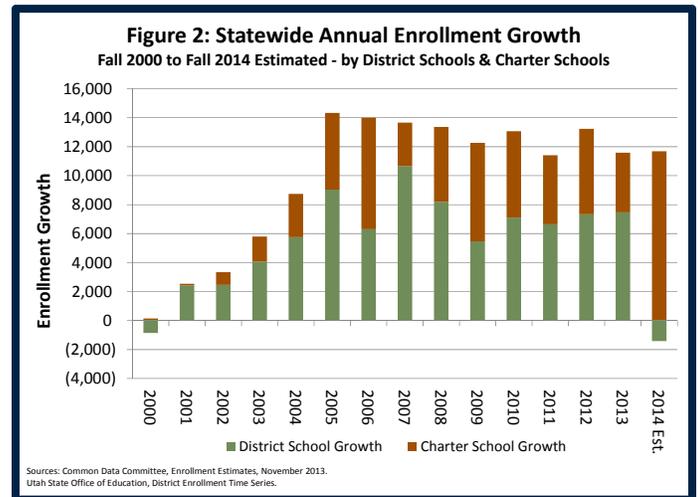
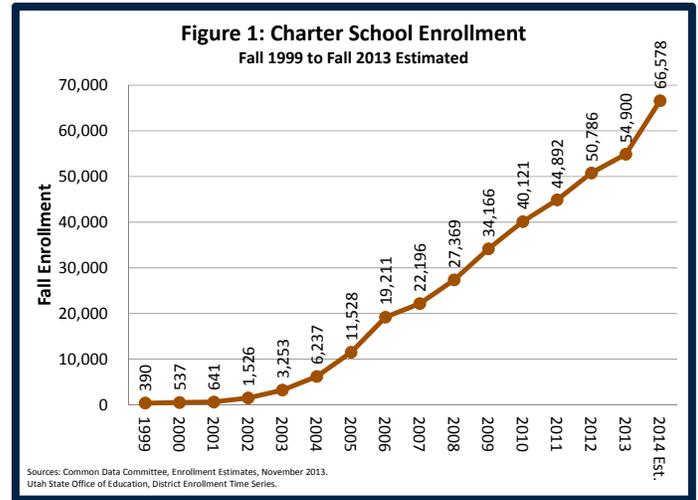
This brief provides a history of the creation of charter schools in Utah, the growth of student enrollments and schools, and state funding mechanisms. Specifically, the Minimum School Program (MSP) contains two categorical programs that provide supplementary funding to charter schools – the Local Replacement Formula and Administrative Costs.

## ENROLLMENTS

Since the opening of the first group of charter schools in 1999, charter schools now enroll 54,900 (fall 2013) students. Figure 1 shows the growth in charter school enrollment since 1999.

The year over year increase in students attending charter schools has ranged from 8.1 percent (fall 2013) to 138.1 percent (fall 2002). Figure 2 highlights Statewide Annual Enrollment Growth since 2000, divided between district schools and charter schools. In fall 2000, enrollment in district schools decreased while charter school enrollment increased. However, there was a net enrollment decrease in the state of 315 students. Projections indicate that in fall 2014 there will again be a net decrease in student enrollment in the school districts. Beginning in 2001 enrollments in both district schools and charter schools began to increase, with a dramatic increase in 2005 of 14,330 new students.

In fall 2000, 2006, 2009, and fall 2014 (projected) new student enrollment in charter schools exceeded that of district schools. Figure 3, shows the total statewide fall enrollment between district schools and charter schools. Charter schools enroll approximately 9.8 percent of all public school students in the state.



**FUNDING**

The Basic School Program in the Minimum School Program provides most operating revenue to all public schools through the Weighted Pupil Unit. The program does not differentiate if a student attends a charter school or a traditional district school. However, 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.

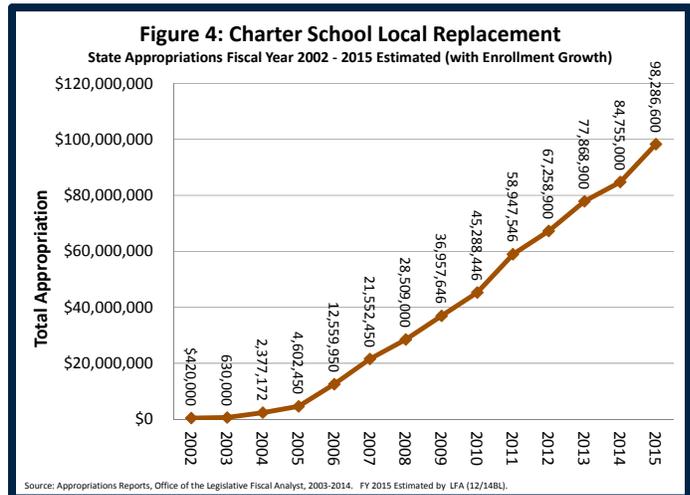
**Local Replacement Formula**

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 2014, a total of \$84,755,000 was appropriated from the education fund to support the program. However, the total cost of the program is just over \$96.1 million. School districts are required to pay a portion of the total cost. The district contribution is estimated at \$11.3 million for FY 2014, approximately 11.9 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 2014, this rate is \$1,689 and mirrors the average per-student local property tax revenue in the school districts two years ago. The FY 2014 rate was based on FY 2012 tax data. Figure 5 shows the annual increases in the local replacement rate since 2005 with the new rate for FY 2015.



**Figure 5: Local Replacement Rate History**  
FY 2005 to FY 2015 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%

In FY 2014 the local replacement rate decreased slightly to \$1,689 based on local property tax collections in the school districts. The rate is expected to decrease again by \$29 to \$1,660 in FY 2015. In FY 2015, based on current statutes, total state funding for the program may increase to \$98.3 million due to increased student enrollment. Local school districts are estimated to contribute an additional \$12.2 million to the program for a total of \$110.5 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 funding inequities among the different charter schools. Only half the revenue received by a charter school was equalized with state funds. The transfer of local property tax revenue also fostered tensions between school districts and charter schools, 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 of the same concepts of the earlier versions, but reinstates a cost sharing mechanism between the state and school districts. Detail on this formula is statute (53A-1a-513). The diagram below details the current formula.

Statute establishes a "District Average Per Pupil Revenue" rate (step #1 below). This rate is based on the total revenues generated by property taxes 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 current 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 into the formula.

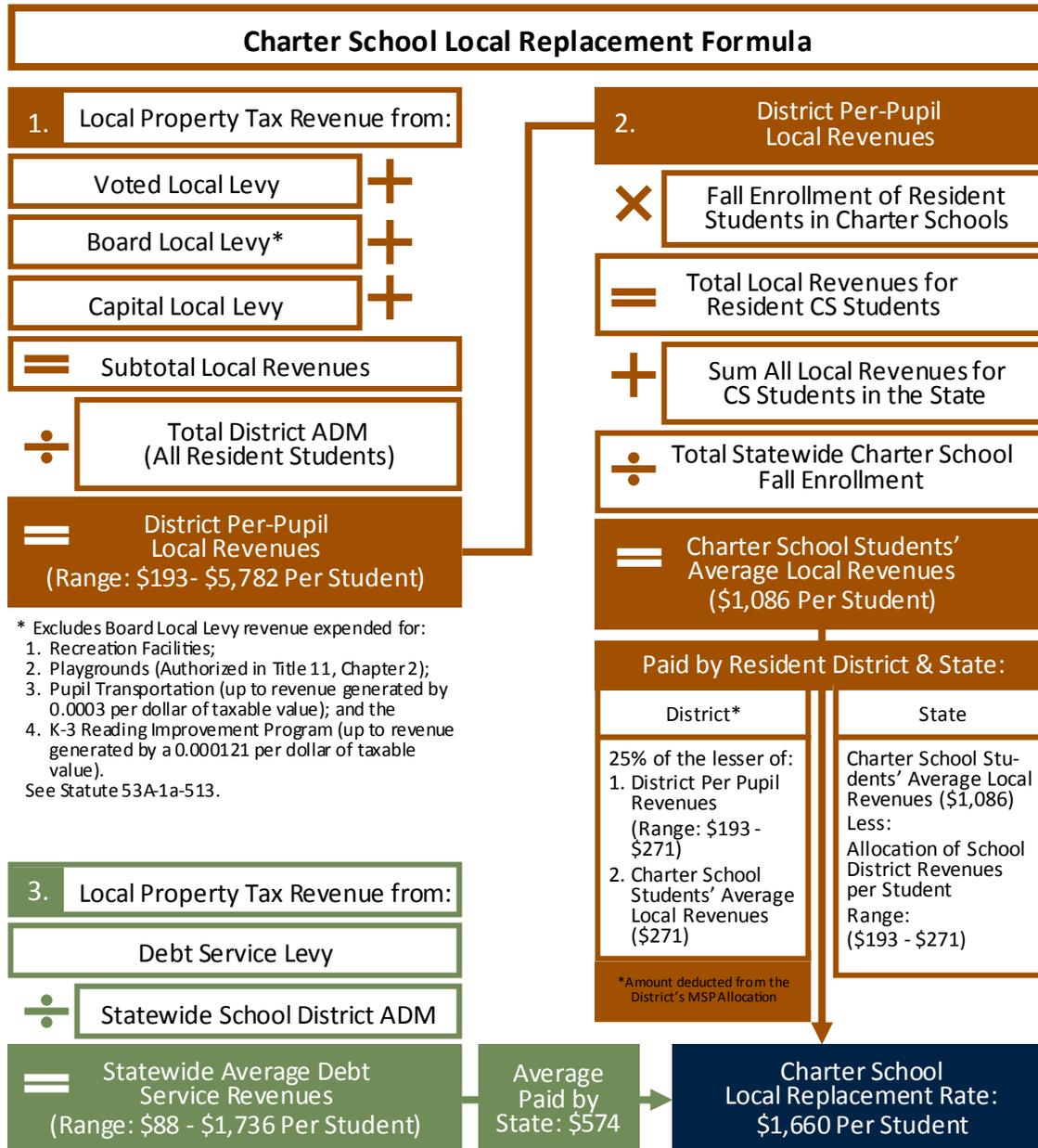
A second component to the formula requires the state to provide a replacement amount for revenues generated by school districts for debt service (step #3 below). The LRF provides the state-average per student Debt Service Revenues for each student enrolled in a charter school.

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 Rate: \$1,660 Per Student**

*Note: On January 1, 2012, House Bill 301 “School District Property Tax Revisions” (2011 General Session) took effect. This legislation consolidated many of the local property tax levies school districts can use. Specifically, the operations portion of the 10% of Basic levy and Tort Liability levy were consolidated into a new Board Local Levy. The capital and debt service portion of the 10% of Basic levy was consolidated into a new Capital Local Levy. The Voted Capital Levy was repealed.*

**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 2014, a total of \$5,692,700 was appropriated to support the program.

**FY 2014 ADJUSTMENTS**

Increased student enrollment impacts both the local replacement and administrative cost programs. In addition to enrolment growth, the statutory formula for the local replacement may also increase the overall cost of the program each year. This impact is dependent on changes in local property tax revenues in the school districts. The following subsections detail these annual adjustments.

***Local Replacement***

The local replacement formula includes two factors that impact program funding each year, student enrollment and the local replacement rate. Student enrollment growth estimates for this fall (FY 2015) show that an additional 11,678 students may enroll in charter schools, for a total of 66,578. This enrollment estimate includes schools seeking authorization under House Bill 344 (2013 General Session). This legislation provides a “fast-track” approval process. Of the projected enrollment, 2,471 students are projected for these schools. In addition, the application of the statutory formula decreases the local replacement rate from \$1,689 to \$1,660.

The combination of these two factors increases the estimated cost of the local replacement by \$13.5 million.

***Administrative Cost***

A total of \$5,692,700 was appropriated in FY 2014 to provide the administrative cost funding to charter schools. In FY 2015, a total appropriation of \$6,657,800 is required to provide the same level of funding for all students estimated to enroll in charter schools this fall. This is an estimated increase of \$965,100.

***Charter School Enrollment Growth in FY 2016***

Each year the Legislature includes intent language in the final education budget bill authorizing student growth in charter schools for the next school year. In 2013, the following language was included in House Bill 2, “Public Education Budget Amendments.”

*The Legislature intends that enrollment in charter schools in the 2014-15 school year may increase up to 7,650 students over the projected enrollment of 56,927 in the 2013-14 school year.*

Preliminary estimates for the 2015-16 school year indicate an increase of 8,450 students in charter schools.

***Recommendation***

- The Analyst recommends that the subcommittee include intent language in the final public education appropriations bill authorizing the State Charter School Board’s estimate of new student growth in the 2015-16 school year.

*Updated on 01.29.2014 to include an updated estimate on the anticipated 2015-16 school year enrollment increase and to correct school year references.*