

Initiative 1240

Fiscal Impact through Fiscal Year 2017

Initiative 1240 is anticipated to shift revenues, expenditures and costs between local public school districts or from local public school districts to charter schools, primarily from movement in student enrollment. This will result in an indeterminate, but non-zero, fiscal impact to local public school districts. Impacts on state expenditures are also indeterminate, but non-zero, because it is unknown: 1) how charter schools will impact enrollment in the state's education system, or 2) the extent to which charter schools will receive state categorical funding or state grants. Known state agency implementation costs are estimated at \$3,090,700 over five fiscal years.

General Assumptions:

- Estimates assume 40 charter schools will be authorized over five years. The proportion authorized by a local public school district ("school district") or by the Washington Charter School Commission ("Commission") is unknown.
- Charter schools would be tuition-free public schools within the state system of common schools under the supervision of the Office of Superintendent of Public Instruction and State Board of Education ("Board").
- State funding for charter schools would be provided in the same manner as other public schools.
- It is unknown where charter schools will be located, their size or the composition of their staff or students ("characteristics").
- Estimates assume charter schools could first be authorized for operation for the 2013–14 school year.
- The effective date of the initiative is Dec. 6, 2012.
- Estimates are described using the state's fiscal year (FY) of July 1 through June 30.

State and Local Government Revenue and Expenditure Estimate – Assumptions

State school funding for charter schools would be provided in the same manner as other public schools. Categorical funding would be allocated to charter schools based on the same funding criteria used for noncharter schools.

To the extent charter schools attract students from private or home schools, overall state student enrollment in the K-12 public school system could increase, increasing state expenditures. The cost of funding a student, using 2011–12 average school year costs, is \$5,814 for basic education funding and transportation costs. However, under current law, the state would be required to fund these students should they choose to enter the public school system. Therefore, the fiscal impact to the state and school districts from any new student enrollment is indeterminate, but non-zero.

Depending on the characteristics of a charter school, state funding such as basic education and categorical funding may shift (decreasing for one entity and increasing for another entity) between school districts or from school districts to charter schools. However, such shifts occur under current law. Current law allows parents to enroll their children in schools outside their resident school district, within certain limitations. Moreover, parents may enroll their children in

any of more than 300 public alternative schools and programs in school districts throughout the state. Students may also enroll in courses or programs at a community college, technical college and certain four-year universities. Charter schools provide another enrollment option, but they do not change current law that state funding follows the student. Therefore, the fiscal impact to school districts from providing state funding to charter schools is indeterminate, but non-zero.

Charter schools are eligible for state matching funds for common school construction. A charter school is eligible to apply for state grants on the same basis as a school district. State grants are allocated based on criteria set in law or rule, and may be competitively allocated, prioritized within available funds or subject to legislative appropriation. Because the characteristics of charter schools are unknown, the fiscal impact to the state and school districts from making charter schools eligible for grants and matching funds is indeterminate, but non-zero.

Charter schools authorized by a school district and conversion charter schools are eligible for local levy moneys approved by the voters before the start-up date of the charter school, and must be included in levy planning, budgets and funding distribution for local levies after the start-up date of the charter school. Charter schools authorized by the Commission are not eligible for local levy moneys approved by the voters before the start-up date of the charter school, but must be included in levy planning, budgets and funding distribution for local levies submitted to the voters after the start-up date of the charter school.

Under current law, school districts are authorized to impose a property tax levy within their boundaries to generate additional operating budget funds. These levies for maintenance and operations purposes can be imposed for up to four years and are limited to a set percentage of a state-defined school district levy base. The school district's levy base is a composite of the prior year's state and federal revenues, adjusted by inflation and other factors. To the extent the charter school changes a school district's state and federal revenues, the school district's levy base may increase or decrease, changing the amount of property tax that can be collected. Because the characteristics of charter schools are unknown, the revenue impact on school districts' property tax levies is indeterminate, but non-zero.

State funding is also available to reduce property tax rates for school district maintenance and operations levies. To be eligible for state local effort assistance, the school district must be located in an area with above-average school district property tax rates. However, because it is unknown where charter schools will be located, the fiscal impact to the state to provide local effort assistance to school districts is indeterminate, but non-zero.

Authorizers of charter schools may receive an oversight fee. The fee is to be set by the Board and must be calculated as a percentage of state operating funding allocated to the charter school, but may not exceed 4 percent of the charter school's annual funding. Because the fee calculation and the amount of state operating funds allocated to the charter school is unknown, there is an indeterminate, but non-zero, revenue impact to the state and school districts.

State and Local Government Cost Estimate – Assumptions

The state will incur known costs to implement the initiative estimated to total \$3,090,700 over five fiscal years. See Table 1 for details on state estimated costs. Assumptions by agency are as follows:

- The initiative establishes a nine-member Commission as an independent state agency. The Commission's mission is to authorize charter schools. Estimates assume the need for operational and staff support to the Commission at the cost of \$970,300 over five fiscal years.
- The initiative requires the Board to develop an annual application, approval process and timelines for entities seeking approval to be charter school authorizers no later than 90 days after the effective date of the initiative. The Board is also responsible for oversight of the performance and effectiveness of authorizers it approves. Duties also include the setting of an authorizer oversight fee. The Board, in collaboration with the Commission, must issue an annual report on the state's charter schools for the preceding year. In the fifth year following the operation of charter schools for a full school year, the annual report must contain a recommendation on whether the Legislature should authorize the establishment of additional charter schools. Estimates assume these new duties will require additional operational and staff support to the Board at the cost of \$815,000 over five fiscal years.
- Estimates assume the Office of Superintendent of Public Instruction will require additional operational and staff support to allocate and reconcile funds paid to charter schools and to perform duties as the Board's fiscal agent. These costs are estimated at \$764,400 over five fiscal years.
- Charter school employees' certificated and classified staff may participate in public employee collective bargaining. Any bargaining unit or units established by the charter school must be separate from other bargaining units in the school districts, educational service districts or institutions of higher education. Each charter school is a separate employer from the school district. It is not known to what extent charter school employees will seek representation and collectively bargain. If all charter school employees were to seek representation and bargain, the maximum estimated cost to the Washington State Public Employment Relations Commission is estimated at \$461,000 over five fiscal years.
- Charter school employees may also participate in the state's health benefit programs through the Public Employees Benefits Board in the same manner as other public school employees. Charter school employees must become members of state retirement systems if their membership does not jeopardize the federal tax status of these retirement systems. The one-time cost of seeking a federal tax status determination is estimated at \$80,000 in fiscal year 2013. No additional state costs are assumed for the provisions of retirement contributions and health care benefits as those are a component of the state's basic education funding to school districts.

School districts that choose to become authorizers of charter schools will incur costs to solicit and review applications, contract with charter school boards, monitor and oversee their authorized charter schools, and annually report to the Board. Because costs will depend on the characteristics of charter schools, there is an indeterminate, but non-zero, cost impact to school districts to become authorizers of charter schools.

TABLE 1 – Known State Cost Impact

Known State Costs	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
State Charter Schools Commission	\$117,100	\$213,300	\$213,300	\$213,300	\$213,300
State Board of Education	\$171,000	\$161,000	\$161,000	\$161,000	\$161,000
Office of Superintendent of Public Instruction	\$239,200	\$131,300	\$131,300	\$131,300	\$131,300
Public Employment Relations Commission	\$0	\$120,500	\$116,500	\$112,000	\$112,000
Department of Retirement Systems	\$80,000	\$0	\$0	\$0	\$0
STATE TOTAL	\$607,300	\$626,100	\$622,100	\$617,600	\$617,600