

**Joint Legislative Budget Committee  
Staff Memorandum**

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DATE: June 3, 2013  
TO: Richard Stavneak, Director  
FROM: Steve Schimpp, Deputy Director  
SUBJECT: CHARTER CONVERSIONS

We are revising the JLBC's FY 2014 Arizona Department of Education (ADE) Baseline estimate upward by \$5 million in FY 2014, \$22 million in FY 2015 and \$39 million in FY 2016 due to increased reports of "charter conversions." The estimated cost could be significantly higher than projected in the latter 2 years due to the financial incentives in converting traditional district schools into district-sponsored charter schools. We lack comprehensive information on the number of districts that intend to make these conversions.

A summary of JLBC's FY 2014 Baseline estimates appears in *Table 2*.

**Background**

A conversion increases state costs because district-sponsored charters receive approximately \$1,000 more per pupil than traditional district schools. In prior years, the Vail and Cave Creek districts converted some of their schools into charters. Those costs are already reflected in the Baseline. See *Attachment A* for a further discussion of the financial aspects of conversion.

Based on ADE feedback and media reports, at least 6 additional districts plan to convert 24 schools to charter status in FY 2014 (*See Table 1*). These new conversions are not reflected in the FY 2014 Baseline. To convert in FY 2014, districts are required to report their plans to ADE by June 30, 2013.

<u>School District</u>	<u>Number of Schools</u>
Humboldt Unified	5
Liberty Elementary	2
Paradise Valley Unified	11
Saddle Mountain Unified	1
Sierra Vista Unified	3
Wickenburg Unified	<u>2</u>
<b>Total</b>	<b>24</b>

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## Projected Costs

The conversion of the 24 schools is expected to add \$3.6 million in FY 2014 and \$13.9 million in FY 2015 and FY 2016 to the current JLBC Baseline. The full impact of a charter conversion does not occur until the second year because only students new to a district (Kindergartners and transfer students) are considered “charter” students in the first year of conversion pursuant to A.R.S. § 15-185A3a.

We anticipate, however, that additional schools could decide to convert for FY 2014 due to the perception that this opportunity may be time limited. As introduced in the Senate, the K-12 Budget Reconciliation Bill (SB 1487) would have established a 1-year conversion moratorium. This provision was removed with a Senate floor amendment. Nonetheless, the ongoing discussion of this issue may encourage school districts to accelerate their conversion plans.

As a result, we are projecting that an additional 6 schools would plan to convert in FY 2014 for a total of 30. As awareness of this option increases, we further forecast a total of 60 schools converting in FY 2015 (including the 30 from FY 2014). The FY 2016 estimate is a total of 90 charter conversions.

At this level of conversions, the Baseline would grow by \$5 million in FY 2014, \$22 million in FY 2015, \$39 million in FY 2016 and \$52 million in FY 2017. These estimates are very speculative and could be higher or lower than forecast. There is a greater possibility, however, of these projections being understated given the financial incentives.

	<b>JLBC Baseline <sup>1/</sup></b>		
	<b>\$ in Millions</b>		
<b>Item</b>	<b>FY '14 Above '13</b>	<b>FY '15 Above '14</b>	<b>FY '16 Above '15</b>
Prior Year Savings	\$(44)	\$0	\$0
Student Growth	67	83	84
Charter Conversions	5	17	17
Property Tax Changes	11	(14)	(13)
Inflation	8	7	8
Career Ladder Phase Out	(7)	(4)	0
One-Time Automation Funding	(5)	0	0
Other	<u>(1)</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>\$34</b>	<b>\$89</b>	<b>\$96</b>

<sup>1/</sup> Excludes any policy changes in the Senate Engrossed budget, including full funding of inflation.

Please let me know if you have questions.

SSc:lm  
Attachment

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You recently requested information on what happens when a school district converts one or more of its schools into a charter school. The short answer is that it receives roughly \$1,000 more per student under the state's school funding formula, but becomes ineligible for state funding for school construction and building renewal grants and cannot require neighborhood students to attend the charter school.

Additional information appears below in a question and answer format.

How Is Funding Different for "Traditional" District Schools Versus District-Sponsored Charters?

Answer: The main difference is that district-sponsored charter schools receive approximately \$1,000 more per pupil under the state funding formula than traditional district schools. This amount can vary substantially depending on whether the traditional school qualifies for "small school weights" or primarily serves high school rather than elementary school pupils. For example, district-sponsored charter schools are ineligible for "small school weights" pursuant to A.R.S. § 15-185A3b.

District-sponsored charter schools can receive both the additional charter funding and any locally approved bond and override funding. Districts probably can spend bond monies on a charter school as long it owns the charter school building. A district can include charter students in its overrides as long as they live within its boundaries.

When Does the Additional Charter Funding Begin?

Answer: Only new students (kindergartners and transfer students) qualify for the additional charter school funding in the first year of conversion. After that, all students qualify for the additional charter funding.

What Are Disadvantages of Charter Conversions?

Answer: Schools that are fast-growing, sparsely populated, or very small could receive less money under charter conversions. This is because charter schools are not eligible for school

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construction or building renewal grant funding from the state, do not receive transportation funding based on route miles, and are ineligible for “small school weights.” Districts also cannot require neighborhood students to attend a nearby charter school, which could cause overcrowding in other district schools if a charter school is not successful. A district also has to pay a large penalty if it decides to reverse a charter conversion. Charter conversions also may be prohibited for schools built with School Facilities Board monies.

What Is the Penalty for Changing Back?

Answer: A district must repay all monies generated by the additional charter school funding in one lump sum payment if it decides to convert a charter school back to a district school. The Arizona Department of Education informally indicates that this potentially could be required even if a school district left a few students “chartered” in order to avoid the penalty.

Do Districts Have to Notify State of Conversions?

Answer: Yes, a district must send a copy of the charter and application to the State Board of Education “before the first fiscal year of operation of the charter school” pursuant to A.R.S. § 15-185A1.

Please let me know if you have questions regarding this information.

SSc:lm