February 16, 2005

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Election Code Section 9005, we have reviewed the proposed initiative (File No. SA2005RF0018) entitled "Fairness for Public Charter Schools Act." Below, we provide some relevant background information, discuss the major provisions of the initiative, and estimate its fiscal effect.

Background

Existing charter school law authorizes school districts and, under certain conditions, county offices of education and the State Board of Education to charter schools. The original charter is valid for five years, at which time the school must have its charter renewed. Renewals are valid for five years.

Charter schools fund their facilities through a variety of mechanisms: state and local bond monies, charter school general purpose monies, and a special state lease program (in effect 2002-03 through 2004-05). This latter program reimbursed a charter school for up to 75 percent of its lease costs if the school served a high proportion of low-income children.

Proposal

This initiative makes three statutory changes to these existing charter school laws.

- ***Expands Types of Agencies That May Charter Schools.*** This initiative allows public entities other than school districts as well as nonprofit entities to approve and oversee charter schools.
- ***Lengthens Renewal Period.*** After the initial five-year charter review period, this initiative allows authorizers to extend subsequent renewal cycles up to 15 years.

- ***Funds Certain Charter School Facility Costs.*** The initiative requires the annual budget act to include funding for no less than 80 percent of the annual state lease costs for certain charter schools. Specifically, a charter school would qualify for lease funding if at least 50 percent of its enrollment was eligible for free or reduced-price meals or if it was located in the attendance area of a public elementary school meeting this criterion. The initiative also would establish an arbitration process for charter schools and school districts involved in facility disputes.

Fiscal Effects

State Facility Costs. The initiative's most significant state fiscal impact involves the funding of charter school facility costs. We estimate that approximately 130 charter schools—about one-third of all charter schools—had 50 percent or more of their enrollment eligible for free or reduced-price meals in 2003-04. These schools served approximately 48,000 students. Some of these schools may not be leasing facilities. Assuming, however, that a substantial portion of these eligible schools participated in this program, the state would incur annual costs in the low tens of millions of dollars. In future years, charter school enrollment and associated lease costs could increase substantially because of the facility subsidy provided under the initiative.

Other Impacts. The measure would also have the following impacts:

- ***State Administrative Costs.*** The state likely would incur minor administrative costs (a couple million dollars annually) associated with evaluating entities that sought to become charter authorizers and monitoring existing authorizer activity.
- ***Local Education Agencies Might Experience Minor Savings.*** Extending the renewal cycle up to 15 years likely would result in minor local administrative savings to charter schools and their authorizers.

Summary

The measure would have the following major fiscal impact:

- Initial annual state cost in the low tens of millions of dollars—potentially growing substantially in future years—to reimburse certain charter schools for the costs of their leased facilities.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Tom Campbell
Director of Finance