



January 22, 2016

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative relating to the repeal of the Charter Schools Act (A.G. File No. 15-0114, Amendment #1).

BACKGROUND

California Law Allows for Charter Schools. Charter schools are publicly funded schools that enroll students in kindergarten through 12th grade. Charter schools operate under locally developed agreements (or “charters”) that determine what educational programs they will provide to students. All charter schools must receive approval from authorizing agencies, which are usually the school districts where the charter schools are located. Authorizing agencies monitor their charter schools and may close charter schools that do not adhere to the terms of their charters. In exchange for this requirement, the state exempts charter schools from many laws that apply to school districts. For example, the state requires school districts to follow specific rules for obtaining input from parents. Charter schools, by contrast, may develop their own plans for parental involvement. Since the state first allowed charter schools in 1992, the number of students attending charter schools has grown steadily. The state currently has 1,230 charter schools serving about 580,000 students (9 percent of all students in the state).

Most Charter Schools Operate With High Level of Independence From Authorizing Districts. Although charter schools are overseen by school districts, most operate with a relatively high level of independence. For example, charter schools typically recruit and hire their own teachers. Most charter schools also have adopted curriculum, textbooks, and instructional materials aligned to their specific educational programs. Students attending charter schools may take different courses than they would have taken in a school district setting or may take these courses in a different order. In addition, charter schools often have their own recordkeeping systems for tracking student grades, attendance, and other information.

Charter Schools Receive Operational Funding From the State. The state has a formula that determines how much funding each school district and charter school receives annually. The formula provides a base amount of funding for each student plus additional funding if the student

is low-income or an English learner. When a student leaves a school district to attend a charter school, the district no longer receives funding for that student and the charter school begins receiving the associated funding. If that student later returns to the school district, the funding follows the student back to the district. Because a student usually generates the same funding in either setting, these transfers are cost-neutral from the state's perspective. In 2015-16, this formula provided school districts and charter schools with an average of about \$9,000 per student, or about \$53 billion statewide. Of this total amount, school districts received about \$48 billion and charter schools received about \$5 billion. School districts and charter schools use this funding to cover basic operating expenses, which include paying teachers, operating and maintaining facilities, and purchasing supplies and equipment.

Charter Schools Operate in Many Types of Facilities. About one-third of charter schools are located in facilities provided by school districts. Another one-third of charter schools lease their facilities from private entities. About one-quarter of charter schools are nonclassroom-based, meaning their instructional programs (typically independent study or online education) do not require students to attend school on a daily basis. Nonclassroom-based charter schools tend to have more limited facilities, such as resource centers where students can meet with teachers a few times per week. Many of these charter schools likely lease private facilities, though no systematic data are available. The small remainder of charter schools either have constructed their own facilities or have obtained facilities in some other way, such as through a partnership with a federal or state agency.

State Provides Funding for School District and Charter School Facilities. The state has a few programs that assist with the cost of school facilities. For charter schools, this support consists primarily of the Charter School Facility Grant Program. This program provides eligible charter schools with grants covering up to 75 percent of the costs of privately leased facilities. In 2015-16, the state provided \$112 million for this program. For school districts, the state periodically sells bonds to help districts construct their own facilities. In 2015-16, the state provided \$2.6 billion for debt service on these bonds.

PROPOSAL

Closes All Charter Schools in California. This measure repeals the law allowing charter schools to operate. The repeal would occur on July 1 following the year voters approve the measure. On this date, all charter schools in California would have to close. The measure provides two ways in which these closures could occur. School districts could assume control of the charter schools within their jurisdiction. In effect, these schools would close as charter schools and reopen as district schools. These schools would no longer have locally approved charters, independence from their school districts, or exemptions from state laws. Alternatively, charter schools could be shut down and not reopened. Under this option, school districts would need to assign the students formerly attending the charter schools to district schools.

Transfers Charter School Assets to the State and Surrounding School Districts. For charter schools with unspent public funds on the date they close, the measure would require those funds to be returned to the state. For charter schools owning any land or buildings, the measure would transfer that property to the school districts in which the land or buildings were located. For

charter schools owning any other property, such as equipment, supplies, or books, the measure would distribute those items to surrounding school districts based on their share of those charter schools' enrollment. The measure also would allow the state to conduct audits and take legal action against anyone who violated these rules.

FISCAL EFFECTS

Shifts Operational Funding and Educational Costs From Charter Schools to School Districts. By closing all charter schools in the state, the measure would require the students attending charter schools to return to their school districts of residence. As a result, school districts would begin to generate the \$5 billion in operational funding currently associated with these students. Along with the additional funding, school districts would assume the costs of educating these students. From the state's perspective, the shift of operational funding would be cost-neutral because the state funds charter school students similar to the way it funds school district students. From a local perspective, operational costs would increase if district employees were compensated at higher rates than former charter school employees (and class size was about the same in the district as in the former charter schools). Operational costs would decrease, however, to the extent school districts gained greater economies of scale by having a larger workforce resulting from their charter school closures.

Shifts Facility Costs From Charter Schools to School Districts. In addition to shifting operational costs, the measure would shift facility costs, as former charter school students would have to be housed in school district facilities. The statewide effect on facility costs would depend upon how state policy makers and districts responded to the measure. Though the measure would eliminate the need for the state to fund the Charter School Facility Grant Program, thereby generating savings of \$112 million per year, the state still would need to house the displaced students, which would create pressure to provide districts with more facility funding. Whether state policy makers would provide more or less than \$112 million to house the displaced students is unknown.

The local effect on facility costs could be neutral, higher, or lower, as explained below.

- ***Possibly Cost Neutral at Local Level.*** For charter schools formerly located in district-provided facilities, districts presumably could continue to use these facilities, with little, if any, change in cost.
- ***Possibly Lower District Costs.*** For charter schools formerly leasing private facilities, districts would have to make other arrangements. To the extent school districts were able to educate these students in existing district facilities that were unused, they might be able to have lower per-pupil facility costs. We estimate about 70 percent of charter schools are in declining-enrollment districts. If these districts had not already sold their surplus property, then they likely would have at least some space to house additional students.
- ***Possibly Higher District Costs.*** To the extent school districts were required to build new facilities that were more expensive than the facilities formerly used by charter schools, they would incur additional costs. (School districts are subject to a few

special requirements that tend to increase the cost of their facilities. For example, district facilities must meet stringent requirements for earthquake safety that do not apply to privately leased buildings, including buildings leased by charter schools.)

Creates Transition Costs for School Districts. We estimate school districts would incur various transition costs totaling hundreds of millions of dollars statewide. With the closure of charter schools, school districts would need to inventory all of the equipment and supplies owned by charter schools and provide for the reuse or disposal of that property. Regarding staffing, school districts would need to recruit and train teachers, principals, counselors, secretaries, maintenance workers, and other staff. Regarding instructional materials, school districts would need to purchase new textbooks and materials for incoming students that were compatible with their existing curricula. Regarding incoming students, school districts would need to obtain student records from charter schools and enter those records into their own systems. They also would need to evaluate incoming students and determine appropriate instructional placements and schedules. Regarding near-term facility issues, school districts might need to repurpose or refurbish some of their existing facilities, or otherwise find temporary classrooms, to accommodate the additional students, at least until they could develop longer-term facility arrangements.

Summary of Fiscal Effects

We estimate the measure would have the following fiscal effects:

- About \$5 billion in state funding and operational costs would shift from charter schools to school districts. Ongoing facility costs also would shift from charter schools to school districts, with the exact effect depending upon the decisions made by state policymakers and districts.
- Transition costs totaling hundreds of millions of dollars statewide for school districts to dispose of charter school property, recruit and train staff, replace textbooks, determine appropriate instructional placements for incoming students, and repurpose facilities.

Sincerely,

Mac Taylor
Legislative Analyst

Michael Cohen
Director of Finance