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Audit Subcommittee of the Legislative Management Committee
President John L. Valentine, Co-Chair • Speaker Greg J. Curtis, Co-Chair
Senator Mike Dmitrich • Representative Ralph Becker

April 18, 2007
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President John Valentine
Representative Ron Bigelow, Co-Chairman
Executive Appropriations Committee
W030 State Capitol Complex
Salt Lake City, UT 84114

Subject: States that Provide Local Property Tax Revenue to Charter Schools

President Valentine and Representative Bigelow:

In a Joint Majority Leadership meeting, during the session, the topic of subsidizing the charter school local replacement fund with a portion of local property tax revenue from the districts was discussed. You asked me to provide more data regarding other states use of property tax revenue to fund charter schools.

As a result of our discussion, we have surveyed other states to gather data regarding the use of local property tax revenue to fund charter schools. This limited review shows that 9 of 15 states contacted provide at least some funding to charter schools from local property tax revenue.

This survey provides additional support for an audit recommendation in our *Performance Audit of Utah Charter Schools*, (Report No. 2007-01) released January 16, 2007. In Chapter II of the report, we recommended that the Legislature consider different options to address charter school parity by:

- adjusting the local replacement formula as needed and continue to fund charter schools entirely with state funds,
- establishing a property tax sharing system administered by the Utah State Office of Education where each school district contributes property tax revenue in proportion to the number of their students who attend charter schools, or
- developing a hybrid approach where the state provides some local replacement funding, and school districts provide some local property tax revenue to fund charter schools.

Local Replacement Funding Has Increased Significantly. We recommended the Legislature consider the option of using local property revenues to help fund charter schools because costs to the state continue to increase, and because school districts retain these funds when students transfer to

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charter schools. Local replacement funding—a legislative appropriation has been provided by the state to make up for the local tax revenue that is not available to charter schools in Utah. Local replacement funding almost doubled, from \$12.5 million in 2006 to \$21.5 million in 2007. The need for funding will continue to increase as more charter schools are created. For 2008, the Legislature appropriated \$28.5 million for local replacement funding.

Two Studies Provided Useful Information. A review of the literature on charter school financing led us to two sources that gave us an overview of funding charter schools in other states. The first source was published in August 2005 by the Thomas B. Fordham Institute. The study, *Charter School Funding: Inequity's Next Frontier*, examined the sources and amounts of funding for charter schools and school districts in 16 states. The second source is from the Education Commission of the States. This commission gathers and analyzes information about current and emerging issues, and trends in state education policy. This source provided an overview of how charter schools are funded in 40 states that have enacted charter school laws.

Some States Provide Different Levels of Property Tax Revenue to Charter Schools. After reviewing the literature, we contacted 15 states that appeared to utilize local property tax revenue to help fund charter schools. Nine of the 15 states contacted fund charter schools with general property tax revenues. The figure below lists the nine states and the approximate level of property tax funding charter schools are provided for general operations.

Figure 1. States that Fund Charter Schools with Local Property Tax Revenues.
 States that provide charter schools with local property tax revenues for general operations vary in the level of local funding.

State	Level of Local Funding	Additional Information
California	Some*	Charter schools receive revenue from a combination of sources consisting of some property tax revenue and three state sources.
Florida	Half	Charter schools receive about a 50/50 split between property taxes and state revenue.
Georgia	Some	Charter schools receive some property tax revenue along with state sources. Special state-chartered schools do not receive property taxes.
Illinois	Majority	About 70% of the revenue comes from property taxes, and about 30% from state funding. Each charter school negotiates with the school district based on a sliding scale between 75% to 125% of the costs to educate a student.
Indiana	Some	About 35% of the revenue comes from property taxes, and 65% comes from state funding.
Missouri	Some	The Legislature has adopted a funding formula for the upcoming school year, 2008, which will include some local property tax revenue.
New York	Most	Charter schools receive a check from the local school districts; state funding is only provided for special needs purposes.
North Carolina	Some	Charter schools receive some local property taxes along with state funding.
South Carolina	Some	General funds are based upon weighted pupil amounts, which include state revenue and local property tax revenue.

Note: This survey only looks at local and state funding only. It excludes federal funding and other local funding such as contributions.

* "Some" funding, as used in the figure, refers to states where less than 50% of charter schools' general funds come from local property tax revenue.

For some states that receive property tax revenue, the exact level of local property tax funding is difficult to calculate. This is because the amount of local property tax revenue provided to charter schools varies based on complex funding formulas.

Mechanisms that states use to distribute property tax revenue vary. Several states require the school districts to provide property tax revenues to the charter schools. However, some states that use this distribution method have controls in place to ensure that charter schools receive property tax revenues in

a timely manner. In Florida, state law gives school districts 10 days from their allocation to pay charter schools. If a school district does not pay within 10 days, then interest begins accruing on the funds. New York allows the state comptroller to hold the payment of state funds to school districts until they pay charter schools. A couple of states use a central entity to collect property tax revenue and then allocate it to school districts and charter schools. For example, Indiana has the county auditor's distribute property tax revenues to both school districts and charter schools.

The figure above shows sources of revenue for general operations, which can include salaries, administrative costs, support services, utilities, and lease payments. However, based on our discussions with the states we contacted, local property tax revenue and general state funds are not used to pay for the purchase of facilities.

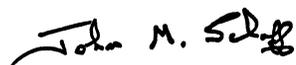
Assistance Provided to Charter Schools to Purchase Facilities Varies. Some states, such as North Carolina provide no capital facilities assistance. Other states provide different levels of assistance for acquiring facilities, for example:

- Illinois permits charter schools to negotiate and contract with a school district or other public entities for the use of a public building, but they are not given funding to purchase a building.
- California provides charter schools a revolving loan fund that allows them to receive loans for as much as \$250,000, allowing five years for repayment, if charter schools want to purchase facilities. California also requires school districts to provide available space rent free to charter schools.
- New York has a state fund that enables charter schools to apply for funds that will help cover a minimal amount of facilities costs.
- Missouri allows a school district to incur bonded indebtedness to provide facilities for district-sponsored charter schools, but this option appears unique compared to other states.

These examples show other avenues states take to provide charter schools with additional sources of revenue and help charter schools who choose to purchase their own facilities.

We hope this additional information from other states helps support the viability of the options presented in the funding recommendation in Chapter II of our charter schools report. If you have any further questions, please call Wayne Kidd at (801) 538-1033.

Sincerely,



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