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FISCAL IMPACT STATEMENT

LS 7216

BILL NUMBER: HB 1607

NOTE PREPARED: Feb 5, 2023

BILL AMENDED:

SUBJECT: Charter School Matters.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Bond Bank Loans:* This bill provides all charter schools access to loans through the Indiana Bond Bank.

Operations Fund Revenue Sharing: The bill requires a county auditor to distribute a portion of revenue received from a school corporation's operations fund property tax levy to each:

- (1) charter school in which students who receive not more than 50% virtual instruction and who have legal settlement in the school corporation attend; and
- (2) transferee school corporation that a transferred student who has legal settlement in the school corporation attends.

The bill phases in the distributions over three years.

Referendum Revenue Sharing: This bill provides that, for a resolution to adopt a school operating referendum tax levy adopted after June 30, 2023, a county auditor must distribute a portion of revenue received from the levy or school safety referendum tax levy to each transferee school corporation and charter school in which students who receive not more than 50% virtual instruction and who have legal settlement in the school corporation attend. The bill also provides that if a charter school receives a distribution from a school corporation from a school operating referendum tax levy or a school safety referendum tax levy, the charter school must post certain information on the charter school's website. It also provides that a charter school or transferee school corporation that may receive money from a school operating referendum tax levy or a school safety referendum tax levy may not promote a position on a referendum, in the same manner as a school corporation is prohibited from promoting a position on a referendum.

Charter Length: The bill provides that the maximum length of a charter is 15 years. (Current law provides

that the maximum length of a charter is seven years.)

Common School Fund Loans for Charter Schools: The bill amends the definition of "school building construction program" to:

- (1) include the purchase, lease, or financing of land, the construction and equipping of school buildings, and the remodeling, repairing, or improving of school buildings by a charter school; and
- (2) replace "adjusted assessed valuation" with "assessed valuation" with regard to school corporation eligibility for an advance from the Common School Fund.

This bill establishes the Public School Options Program and fund. It provides that a charter school (excluding a virtual charter school or adult high school) may receive an advance from the Common School Fund if the charter school's authorizer approves the application. It provides that the State Board of Education shall repay a charter school's advance from proceeds in the Public School Options Fund. It also provides that the Department of State Revenue shall make a distribution from the state retail and use tax that it collects to the Public School Options Fund.

Miscellaneous: This bill makes conforming amendments. It also makes a technical correction.

Effective Date: July 1, 2023; January 1, 2024.

Explanation of State Expenditures: *Summary* - Under the bill, beginning in FY 2024, 0.6% of the collections from Sales and Use Tax would go to the Public School Options Fund rather than the General Fund for the purpose of paying advances made to charter schools from the Common School Fund. LSA estimates that the fund would receive \$63.5 M in FY 2024 and \$66.6 M in FY 2025, based on the December 2022 General Fund Revenue Forecast. The bill also has some minor workload changes for the Indiana Bond Bank (IBB), Department of Education (DOE), Department of Local Government Finance (DLGF), and state educational institutions (SEIs).

Common School Fund Loans for Charter Schools: The bill allows charter schools to receive advances from the Common School Fund and establishes the Public School Options Fund to pay for the advances made to charter schools. Beginning in FY 2024, 0.6% of the collections from Sales Tax would go to the Public School Options Fund rather than the General Fund. LSA estimates that the fund would receive \$63.5 M in FY 2024 and \$66.6 M in FY 2025, based on the December 2022 General Fund Revenue Forecast. The Public School Options Fund will be administered by the State Board of Education, and the costs of administering the fund will be paid from the fund. It is not clear if the fund reverts to the General Fund.

Bond Bank Loans: The IBB could receive more applications for loans under the bill, resulting in a minor workload increase. The IBB is a quasi-state agency whose primary purpose is to assist local units of government obtaining low-cost financing for their operations. The IBB operates as a financing conduit purchasing the bonds and notes of local units, and in turn, issuing the IBB's obligations to the market. This is done to leverage the economies of scale and achieve low borrowing costs. The IBB is a self-funded entity and does not receive any appropriations from the state of Indiana.

Calculating Revenue Sharing: The bill requires the DOE to provide data and projections on the number of students who have legal settlement within a given school corporation but attend another school corporation or charter school. The bill also requires the DLGF to prescribe the manner in which the projection is calculated. These workload increases are anticipated to be completed with existing staff and resources.

Charter Length: By increasing the maximum length of a charter from 7 to 15 years, charter school authorizers could experience a minor workload decrease. The Charter School Board and State Educational Institutions (SEIs) that offer four-year Bachelor's programs are allowed to act as a charter school authorizer. [SEIs receive state funding through General Fund appropriations.]

Explanation of State Revenues:

Explanation of Local Expenditures: *Bond Bank Loans:* Under current law, charter schools that are sponsored by the Indianapolis Mayor's Office are not eligible for loans through the IBB. Those charter schools currently have access to loans through the Indianapolis Local Public Improvement Bond Bank. The bill's provision giving these charter schools access to loans through the IBB could decrease expenditures of the charter schools to the extent the charter schools are able to attain lower borrowing costs through the IBB.

Charter Length: State law allows school corporations (upon approval by the State Board of Education) and the Indianapolis Charter School Board to authorize charter schools. Both could experience a minor workload decrease under the bill. [See Explanation of State Expenditures for further details.]

Charter School Workload: The bill requires a charter school that receives a distribution from a referendum to post on its website the specific purpose(s) for which the money will be used and an estimate of the annual dollar amounts for each specified purpose. The bill also requires certain tasks be completed by a charter school organizer before a charter school can receive an advance from the Common School Fund. The minor workload increases will be completed with existing staff and resources.

Explanation of Local Revenues: (Revised) *Operations Fund Revenue Sharing:* Under the bill, beginning in 2024, each school corporation's operations fund property tax revenue would be proportionally shared with any other school corporation or charter school that enrolled a student who lives in that school district. The bill provides a three year phase-in of the operations fund revenue sharing. LSA estimates that school corporations' operations funds will lose about \$21.1 M in 2024, \$43.4 M in 2025, and \$68.7 M in 2026 to charter schools. [See *Additional Information* for more details on how the operations fund property tax revenue sharing distributions are calculated and LSA's estimate].

Referenda Revenue Sharing: Under the bill, revenue from operating or school safety referenda levies for which a resolution is adopted in FY 2024 or later would be proportionally shared with any other school corporation or charter school that enrolled a student who lives in that school district. The fiscal impact on charter schools and school corporations will be dependent upon which school corporations pass or extend referenda in the future, ADM shifts between school corporations and charter schools, and the tax rates imposed. The bill provides a cap on the portion of referendum revenue that would be distributed to charter schools. That cap is set to 110% of the amount that was projected to be distributed to charter schools in the projection by the DOE.

Additional Information- *Operations Fund Revenue Sharing:* Under the bill, a school corporation (transferee school corporation) that has students who live in another school corporation (transferor school corporation) would receive a share of the transferor school corporation's operations fund property tax revenue based on the percentage of students that live in the transferor school corporation's district that attend the transferee school corporation. A charter school that has nonvirtual students who live in the transferor school corporation's district would receive a share based on the percentage of students that live in the transferor school corporation's district that attend the transferee charter school and receive most of their education in-person. The bill has a phase-in provision such that transferee school corporations and charter schools receive

33.33% of the distributions they would normally receive under the calculation described above in 2024, and 66.67% in 2025. From 2026 and after, the full amount will be distributed to transferee school corporations and charter schools.

To complete the estimate of the operations fund revenue sharing impact, LSA used student-level FY 2022 ADM data from DOE to find the percentage of students attending each school corporation that came from another school corporation or charter school. Students that met both of the following criteria were eliminated from the analysis:

1. The student received their instruction virtually.
2. The student attended a charter school.

Those percentages, along with the phase-in percentages of 33.33%, 66.67%, and 100% were applied to the operations fund property tax revenue estimates for each school corporation to find how much each transferee school corporation and charter school would receive and how much each transferor school corporation would lose under the bill. While current law allows a school corporation to share operations fund revenue with charter schools, this analysis assumes this does not occur.

(Revised) *Referenda Revenue Sharing*: Under the bill, a school corporation that has students who live in another school corporation (transferor school corporation) would receive a share of the transferor school corporation's operating and school safety referenda revenue (if any) based on the percentage of students that live in the transferor school corporation's district that attend the transferee school corporation. A charter school, except for a virtual charter school, that has students who live in the transferor school corporation's district would also receive a share based on the percentage of students that live in the transferor school corporation's district that attend the transferee charter school.

Using student level FY 2022 ADM data, LSA simulated what the bill's impact would have been on existing school operating and school safety referenda levies in 2022 if all the referenda levies were shared as prescribed in the bill. In 2022, there were a combined 62 school operating or safety referenda levies. If school corporations were required to distribute a portion of their levies to nonvirtual charter schools, charter schools would have received an estimated \$25.2 M of the \$382.1 M certified referenda levies. After accounting for the revenue transferred to charter schools and among all the school corporations, school corporations that had referenda revenue in 2022 would have lost a total of \$39.3 M of referendum revenue under the bill. While current law allows a school corporation to share operations fund revenue with charter schools, this analysis assumes school corporations would have retained all their referenda revenue. Indianapolis Public Schools recently began sharing some of its revenue with innovation network charter schools.

State Agencies Affected: Indiana Bond Bank; State Educational Institutions that authorize charter schools; Charter School Board; Department of Education; Department of Local Government Finance; State Board of Education.

Local Agencies Affected: Charter schools sponsored by the Indianapolis Mayor's Office. Indianapolis Charter School Board; public schools; county auditors.

Information Sources: LSA education database; LSA property tax database.

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