

Fiscal Note & Local Impact Statement

124th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43266-0342 ♦ Phone: (614) 466-3615
♦ Internet Web Site: <http://www.lsc.state.oh.us/>

BILL: **Am. Sub. H.B. 364** DATE: **April 23, 2002**

STATUS: **As Passed by the House** SPONSOR: **Rep. Husted**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Expands community school law**

State Fiscal Highlights

STATE FUND	FY 2002*	FY 2003	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	\$10 million or more	\$10 million or more per year until 2014

Note: The state fiscal year is July 1 through June 30. For example, FY 2002 is July 1, 2001 – June 30, 2002.

*This fiscal note assumes the effects of the bill will not begin until FY 2003.

- Assuming there are 22,000 community school students, at a cost of \$450 each, yields a cost of approximately \$10 million or more annually for the next 11 years (the number of years remaining in the Governor's Plan) for the Community School Classroom Facilities Support Program within the Ohio School Facilities Commission (OSFC). This cost would come from OSFC's capital appropriations, thus causing some districts to have to wait for their funding unless the amount allocated increases.
- The bill creates the Office of Community Schools within the Department of Education. The office would be responsible for monitoring and oversight of community schools in Ohio, including audits of the schools and investigations of any complaints about the schools.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002*	FY 2003	FUTURE YEARS
School Districts			
Revenues	- 0 -	Loss depending on the number of new community schools established	Loss depending on the number of new community schools established
Expenditures	- 0 -	Decrease depending on the number of new community schools established	Decrease depending on the number of new community schools established

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

*This fiscal note assumes the effects of the bill will not begin until FY 2003.

- There are potential decreases in revenues and expenditures to local school districts that are dependent on the number of new community schools established. These changes could be sizable as the bill allows a start-up community school to be established in any school district in the state, regardless of status (e.g., academic emergency, academic watch, continuous improvement, etc.). Net negative effects could be transitory if school district employment levels are kept in line with student levels.
- The bill also classifies gifted students as "at-risk," meaning that community schools could be established specifically for the gifted students in a given school district.
- The effects of community schools on local school districts are not uniform. The effects depend on the unique circumstances of a given school district.
- If a school district fails to provide transportation for community schools as required under current law, that district can lose money from the state for failing to comply with the law. The effect of this provision for local school districts would be the cost of compliance with the rule.

Detailed Fiscal Analysis

Substitute House Bill 364 makes several changes to the community school law. The bill allows a start-up community school to be established in any school district in the state. It also takes away the authority of the State Board of Education to sponsor start-up community schools. However, the board may continue to sponsor schools for which it has a contract for up to two years or until a new sponsor is secured. The bill also adds a representative from the Office of the Auditor of State, beginning on January 1, 2003, to the Alternative Education Advisory Council, as established in Am. Sub. H.B. 94. Community schools are also required under the bill to conform to submitting information to the educational management information system.

Local Costs

Start-up Community School Locations

Currently, community schools may be established in school districts that are in “academic emergency.” The primary effect of this bill to local school districts comes from the addition of all other school districts to the list of areas where start-up community schools may be established. In the 1998/1999 school year, there were 69 school districts in academic emergency and in the 1999/2000 school year, there were 35 districts in academic emergency. In addition to “academic emergency” districts, currently community schools may also be established in the urban 21 school districts (this group includes the big 8 school districts) and in school districts in Lucas County. The bill would allow a start-up community school to be established in any of the state’s 612 school districts.

The bill would also allow gifted students to be considered “at-risk” students. As a result of this provision, community schools could be established solely for gifted students. As the increase in effect is dependent on how many new community schools would be established, and without knowing how many new community schools would be launched as a result of these changes in law, it is difficult to determine the effect on the districts.

Effects on districts are also dependent on whether enrollments are increasing or decreasing for the affected school districts. For example, if a community school is established in a school district where the student body is increasing every year, then the likelihood is that the community school would absorb part of that increase. One of the immediate effects on the district would include the need to hire fewer new teachers. The district may also need less in the way of new buildings if the increase in students became less due to the presence of a community school. The community school would, theoretically, absorb some of that increase as the school developed.

On the other hand, if a community school were established in a school district where the student body is stable or decreasing every year, then, when the community school begins enrolling students from that district, one of the immediate effects would be the need to reduce the number of teachers and the number of classrooms utilized. Because most districts hire some new teachers each year, this reduction will mostly be accomplished by hiring fewer new teachers. If teachers are not reduced in line with the district’s pupil decline, the district’s financial position will erode. This erosion will last until the decline in teachers is brought in line with the decline in pupils. With careful management, this balance should be achieved in one or two years so that the negative financial impact of the decline in students is a one-time transition cost. In addition, proportional reductions in overhead are also needed to keep expenses in line.

Local Transportation Costs

The bill codifies certain practices already in place at the Department of Education, including a series of administrative procedures for all students (including regular and non-public students) governing the payment in lieu of providing transportation. If, due to the impracticality of transporting certain students, the district does not provide transportation to any student in that district, then they may pay the parent of that community school student the amount of the average cost to all districts in the state to provide transportation in the preceding year. In addition, the community school can charge a fee for providing transportation for enrolled students who would not ordinarily be eligible for transportation.

Under current law, the department has no recourse if a school district does not comply with the guidelines regarding transportation. The bill allows the department to take action against a school district and require it to pay for transportation by deducting the cost of transporting the student (or students) from any payments made to the district under the transportation portion of the state funding formula.

The bill amends current law to require school districts to provide transportation to community school students on the same basis as to nonpublic school students. The exception to this would be if the district and the community school have entered into a contract under which the community school provides transportation to its students. The bill eliminates the current law that requires a \$450 per pupil payment for transportation costs when a community school assumes transportation responsibilities and requires any payments for eligible students or certain disabled students to be specified in the community school’s contract.

State Costs

Community Schools Oversight and Monitoring

At present, the Office of School Options (OSO) at the Department of Education provides academic oversight for community schools. There are 8 employees in the OSO, but their time is split between community schools, non-public schools, etc. The Office of School Finance (OSF) at the Department of Education provides fiscal oversight for community schools. The bill creates the Office of Community Schools (OCS) within the Department of Education and requires the OCS to oversee the sponsors of community schools and to provide technical assistance to schools and sponsors. Under the bill, sponsors include any educational service center, any school district, and any federally tax-exempt entity. The OCS would also be responsible for approving sponsors and monitoring the compliance of sponsors with their contract duties. Since the department is already performing most of these oversight duties, this would likely not affect the state, assuming that no new employees are hired for this purpose but, rather, employees in the OCS are transferred in from other offices and divisions in the department. If the number of community schools substantially increases, at some point additional staff will be needed to monitor the larger number of schools.

Under the bill, the Department of Education must immediately suspend the operations of a community school that is in violation of health and safety regulations. The department can also suspend a community school's operations for violations of its contract, including violations of the provisions in its preliminary agreement (required under the bill to be a written document submitted to the department from the governing authority of the community school before a contract is approved). Part of the department's monitoring and oversight duties would be periodic audits of community schools and investigations into complaints against a community school.

If it is found that the department has overpaid a community school (i.e., made payments for more students than are actually enrolled in the school), then the department can recoup the money by decreasing the payments made in subsequent years until the balance is even. There is a provision in the bill that requires a community school contract to have a plan of action in the event the school has to shut down before the end of the school year.

Community School Cap

The bill puts into place a cap of no more than 225 (about 130 more than the current number of community schools) on the number of community school contracts that may be in effect at any given time for two years following the effective date of the bill. There is no cap under current law, but, under current law, there are fewer sponsors allowed to enter into a community school contract. Currently there are about 22,000 students in community schools, or about 1.3%, of the total ADM. If the number of community schools increased to 225, and the new schools continued to average about 200 students per school, the number of students could increase by about 26,000 under the cap. After the cap is removed in two years, additional community schools could form.

Although there are currently only 92 community schools in operation, there are an additional 78 preliminary agreements and contracts that are awaiting approval by the Department of Education. These 78 preliminary agreements and contracts have been submitted to the Department of Education since the cap of 125 community schools was lifted on July 1, 2001. While some of the schools now under development will not come to fruition, it is conceivable that there is the potential to double or triple the 170 schools with all areas of the state as potential locations for schools. It is difficult to know, however, if the remaining areas of state will be more or less successful as community school sites (or even if the 78 proposed schools will be successful). Anecdotal evidence indicates that rural community schools may be harder to establish. Looking at other states, and their experiences, might be instructive. Arizona, for example, has nearly 450 community schools with a total community school student population of approximately 95,000. Michigan, on the other hand, has about 200 community schools with a total community school student population of approximately 53,000. Nationwide, there are 2,125 community schools with a total community school student population of over 522,000. This averages out to around 245 students per community school. Ohio, Arizona, and Michigan all have similar student-school averages. Thus, there is a fairly broad range of possible outcomes. There is no reliable way to determine how many new community schools might be established in Ohio.

Federal Title I Allowance

Recent federal legislation, H.R. 1 ("Leave No Child Behind"), mandates that children in failing schools (according to the federal definition) may transfer to a charter/community school and the Title I funds allocated to that student follow the student to the community school. The bill underscores this requirement by stating that the Department of Education is required to include community schools in its annual allocation of federal Title I money.

Formula ADM

The formula average daily membership (ADM) is calculated during the first full week in October. From that calculation, school districts receive money from the Department of Education based on the base cost funding amount for a given fiscal year. Community school students are added to this count, but only if they are enrolled before the first full week in October. The bill would require the Department of Education to adjust the formula ADM of the school district in which the community school student was excluded because the student was not enrolled by the first full week of October. The bill also requires the Department of Education to make the first payment to a community school within 30 days of receipt of its initial reported enrollment and to periodically make additional payments to the school that are adjusted for changes in the school's enrollment. The department then has to recalculate the school district's payments for the entire fiscal year. The cost to the state for this portion of the bill is dependent on the number of new community schools that are established after the first full week in October.

Community School Classroom Facilities Loan Guarantee and Support Programs

This bill also creates the Community Schools Classroom Facilities Support Program, which requires the Ohio School Facilities Commission (OSFC) to pay a per pupil stipend of \$450 to each start-up community school. This per pupil stipend is to be paid in any fiscal year in which the General Assembly appropriates money for that purpose. It also permits all community schools to participate in the Community School Classroom Facilities Loan Guarantee Program. Loans made under the loan guarantee program can be used for new construction of the school buildings.

According to the OSFC, the stipend per pupil would cost approximately \$10 million or more annually (based on the current number (22,000) of community schools students multiplied by \$450). The OSFC also stated that, although the capital funds used for this stipend would otherwise be allocated to city, local, and exempted village school districts and, therefore, would experience a loss in revenues, these districts would still eventually receive funding from the OSFC. The earmark for the stipend would simply slow this process unless additional funds are provided.

Community School Revolving Loan Fund

The bill creates the Community School Revolving Loan Fund in the state treasury. Moneys in this fund come from any federal funds allocated to the state for the development and operation of community schools, as well as any other money appropriated by the General Assembly. These funds will be used to cover default on a loan made from the fund to the sponsor or governing authority of any start-up community school. The superintendent of public instruction must approve loans made under this provision.

LSC fiscal staff: Sara Doddy, Budget Analyst

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