

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system
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## Estimated Cash Receipts

NONE

## Estimated Expenditures

Agency Name	2011-13			2013-15			2015-17		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of Financial Management	.4	117,142	117,142	1.5	426,568	426,568	1.5	426,568	426,568
Washington State Health Care Authority	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	80,000	.0	0	0	.0	0	0
Public Employment Relations Commission	.0	0	0	1.0	237,000	237,000	1.0	224,000	224,000
Superintendent of Public Instruction	1.2	410,235	410,235	2.3	584,670	584,670	2.3	584,670	584,670
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
School District Fiscal Note - SPI	.3	0	95,000	.4	0	98,000	.4	0	106,000
<b>Total</b>	<b>1.9</b>	<b>\$527,377</b>	<b>\$702,377</b>	<b>5.2</b>	<b>\$1,248,238</b>	<b>\$1,346,238</b>	<b>5.2</b>	<b>\$1,235,238</b>	<b>\$1,341,238</b>

## Estimated Capital Budget Impact

NONE

<b>Prepared by:</b> Monica Jenkins, OFM	<b>Phone:</b> (360) 902-0561	<b>Date Published:</b> Pending Distribution
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\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID 32605

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> 105-Office of Financial Management
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	0.8	0.4	1.5	1.5
<b>Account</b>					
General Fund-State 001-1	0	117,142	117,142	426,568	426,568
<b>Total \$</b>	0	117,142	117,142	426,568	426,568

### Estimated Capital Budget Impact:

**Non-zero but indeterminate cost. Please see discussion.**

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: Stephanie Lidren	Phone: 360-902-3056	Date: 07/23/2012
Agency Approval: Aaron Butcher	Phone: 360-902-0406	Date: 07/23/2012
OFM Review: Chris Stanley	Phone: (360) 902-9810	Date: 07/24/2012

Request # 001-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Initiative 1240 establishes the Washington charter school commission as an independent state agency whose mission is to authorize high quality charter schools throughout the state, particularly schools designed to expand opportunities for at-risk students. The commission shall consist of nine members.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

Initiative 1240 establishes the Washington charter school commission as an independent state agency whose mission is to authorize high quality charter schools throughout the state, particularly schools designed to expand opportunities for at-risk students. The commission shall consist of nine members. Three of the members are to be appointed by the Governor. Commission members shall serve without compensation but may be reimbursed for travel expenses as authorized in RCW 43.03.050 and 43.03.060.

Operational and staff support for the commission shall be provided by the Office of the Governor until the commission has sufficient resources to hire or contract for separate staff support. Staff shall reside within the Office of the Governor for administrative purposes only.

We assume the Commission will need an Executive Director and part-time Administrative Assistant. We assume the commission will meet 6 - 8 times per year, with travel and meeting costs.

Executive Director salary = \$96,000 plus benefits

Administrative Assistant salary = \$24,000 plus benefits

Meeting costs = \$20,000

Other goods and services (rent, phones, supplies, etc.) = \$36,000

Equipment = \$10,500

Travel = \$3,600

First year costs are estimated to be \$117,142. With the exception of the equipment, all costs will be ongoing.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		0.8	0.4	1.5	1.5
A-Salaries and Wages		60,000	60,000	240,000	240,000
B-Employee Benefits		16,842	16,842	67,368	67,368
C-Personal Service Contracts					
E-Goods and Services		28,000	28,000	112,000	112,000
G-Travel		1,800	1,800	7,200	7,200
J-Capital Outlays		10,500	10,500		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$0	\$117,142	\$117,142	\$426,568	\$426,568

#### III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2012	FY 2013	2011-13	2013-15	2015-17
Administrative Assistant	48,000		0.3	0.1	0.5	0.5
Executive Director	96,000		0.5	0.3	1.0	1.0
<b>Total FTE's</b>	144,000		0.8	0.4	1.5	1.5

### Part IV: Capital Budget Impact

Non-zero but indeterminate cost. Please see discussion.

### Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> 107-Wash State Health Care Authority
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**Part I: Estimates**

**No Fiscal Impact**

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: David Donnell	Phone: (360) 923-4745	Date: 07/24/2012
Agency Approval: Janice Baumgardt	Phone: 360-725-9817	Date: 07/24/2012
OFM Review: Richard Pannkuk	Phone: (360) 902-0539	Date: 07/24/2012

Request # 12-89-XIP-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

See attached fiscal note narrative for details.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

See attached fiscal note narrative for details.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

See attached fiscal note narrative for details.

## Part III: Expenditure Detail

## Part IV: Capital Budget Impact

<b>Non-zero but indeterminate cost. Please see discussion.</b>
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See attached fiscal note narrative for details.

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

See attached fiscal note narrative for details

# HCA Fiscal Note

Bill Number: 1240 XIP

Creation of a Public Charter School System

HCA Request #: 12-89-XIP-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

#### NO FISCAL IMPACT

Authorizing Charter Schools and establishing the Washington Charter School Commission as a state agency. This initiative is similar to HB 2428 (2012 session).

#### Background

The Initiative will authorize a maximum of 40 charter schools (no more than 8 per year) over a five year period as “independently managed public schools operated only by qualified nonprofit organizations approved by the state.” Charter schools must receive funding based on student enrollment just like existing public schools. Charter schools must be authorized and overseen by a state charter commission or by a local school board. In order to be authorized, a nonprofit must be either a public benefit nonprofit corporation as defined in RCW 24.03.490 or a nonprofit corporation as defined in RCW 24.03.055 that has applied for tax exempt status under section 501(c)(3) of the IRC.

#### Legal Status:

Section 202:

A charter school is a “public, common school open to all children free of charge.”

Section 203:

Charter schools may enter into contracts with a public or private entity for the provision of goods and services as long as the charter school board maintains oversight authority over the charter school. However, contracts for management operation may only be with nonprofit organizations.

Section 301:

The term “public school” is redefined in RCW 28A.150.010 to include charter schools.

#### Applicability of State Laws:

Charter schools are not subject to and are exempt from all state statutes and rules applicable to school district and school district boards of directors except those identified in *section 204 subsection (2)*, “for the purpose of allowing flexibility to innovate in areas such as scheduling, personnel, funding, and educational programs in order to improve student outcomes and academic achievement.”

Section 208:

Establishes the Washington Charter School Commission as an independent state agency. This will be a nine member commission whose mission is to authorize Charter Schools throughout the state. The commission members will serve without compensation. Initially, operational support staff will be provided by the Office of the Governor.

# HCA Fiscal Note

Bill Number: 1240 XIP

Creation of a Public Charter School System

HCA Request #: 12-89-XIP-1

## Section 306:

Amends sections of RCW related to k-12 school districts, Public Employees Benefits Board (PEBB) benefits, pension benefits and collective bargaining.

Amends definitions in RCW 41.05.011 related to benefits offered under the Public Employees Benefits Board as follows:

- “Employee” is amended to include employees of Charter Schools
- “Employing Agency” is amended to include Charter Schools
- “Retired or disabled school employee” is amended to include employees of Charter Schools

The initiative does not provide an effective date.

It should be noted that the amendment to the definition of “employee” in RCW 41.05.011 is written slightly different so it was not clear whether Charter Schools would participate in the same way as school districts or as political subdivisions.

## Health Care Authority Operational Impacts

The Washington Charter School Commission:

- A new agency number will need to be assigned; however, initially support for the Commission will be staffed through the Governor’s office. This can be accomplished with existing resources.

Charter Schools:

- Charter Schools could apply to participate in PEBB benefits through a contractual agreement with the Health Care Authority (HCA) in the same way that other school districts apply. If it is determined that Charter Schools operated by nonprofit organizations are not considered governmental entities and that participation by Charter School employees would jeopardize the PEBB plan’s status as a governmental plan, the HCA would deny the application in order to perform the agency’s duty under RCW 41.05.021(1)(g).
- Employees of Charter Schools will be eligible for enrollment in PEBB retiree insurance under the same eligibility as other school district employees upon retirement. This analysis assumes that Charter Schools are governmental entities. If it is determined that Charter Schools are not considered governmental entities and that participation by Charter School employees would jeopardize the PEBB plan’s status as a governmental plan, it is assumed that the employees would not be eligible. Sections 303 – 305 of the initiative rely on the Department of Retirement Systems (DRS) receiving a determination from the Internal Revenue Service and United States Department of Labor that participation by Charter School employees will not jeopardize the status of the retirement systems as governmental plans. HCA will rely on the determination in determining the eligibility of charter school employees for participation in PEBB retiree insurance benefits instead of incurring the cost of requesting a determination from the federal agencies.
- Charter School employees will be eligible to participate in PEBB retiree insurance. An assumption in this analysis is that Charter Schools that do not receive insurance

## HCA Fiscal Note

Bill Number: 1240 XIP

Creation of a Public Charter School System

HCA Request #: 12-89-XIP-1

benefits through a contract with the HCA will be required to comply with RCW 28A.400.410 (*"shall remit to the health care authority for deposit in the public employees' and retirees' insurance account established in RCW [41.05.120](#) the amount specified for remittance in the omnibus appropriations act"*). As Charter Schools are authorized, the HCA will need to assign an agency number in order to collect the remittance and to communicate information about PEBB benefits as required in RCW 41.05.021(1)(i). This assumption would change if it is determined that Charter Schools are not governmental entities and that their participation would jeopardize the PEBB plan's status as a governmental plan. This can be accomplished with existing resources.

- An assumption in this analysis is that Charter Schools will need to comply with the provisions of ESSB 5940. This assumption would change if it is determined that Charter Schools are not governmental entities and that their participation would jeopardize the PEBB plan's status as a governmental plan.

### Information Technology Impact

An agency number would need to be assigned to each charter school as it is authorized to support the collection of the retiree remittance RCW 28A.400.410. An agency number would also need to be assigned to the Washington Charter School Commission to support enrollment of staff in PEBB benefits.

### Benefits Impact Assumptions

PEBB/Basic Health - None

Medicaid Assistance - None

### Agency Fiscal Impacts

None

### II. B – Cash Receipts Impact

None

### II. C - Expenditures

None

## Part IV: Capital Budget Impact

None

## HCA Fiscal Note

Bill Number: 1240 XIP

Creation of a Public Charter School System

HCA Request #: 12-89-XIP-1

### **Part V: New Rule Making Required**

The definitions in chapters 182-08, 182-12 and 182-16 WAC would need to be amended to reflect the amended definitions in RCW 41.05.011. This work would be included in the annual rule making and could be accomplished with existing resources.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> 124-Department of Retirement Systems
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## Part I: Estimates

No Fiscal Impact

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

	FY 2012	FY 2013	2011-13	2013-15	2015-17
<b>Account</b>					
Department of Retirement Systems	0	80,000	80,000	0	0
Expense Account-State 600-1					
<b>Total \$</b>	0	80,000	80,000	0	0

**Estimated Capital Budget Impact:**

Non-zero but indeterminate cost. Please see discussion.

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: Dave Nelsen	Phone: 360-664-7304	Date: 07/20/2012
Agency Approval: Marcie Frost	Phone: 360-664-7224	Date: 07/20/2012
OFM Review: Cherie Berthon	Phone: 360-902-0659	Date: 07/24/2012

Request # -1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Sections 303, 304 and 305 contain similar language that designates charter schools as employers and charter school employees as members in Washington State's public pension systems\*.

The sections go on to identify that this applies only if the Department of Retirement Systems (DRS) receives determinations from the Internal Revenue Service (IRS) and the United States Department of Labor (USDOL) that participation does not jeopardize the status of these retirement systems as governmental plans under the federal Employees' Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC).

\*Sec. 303 adds a new section to the Teachers' Retirement System (TRS), Sec. 304 adds a new section to the School Employees' Retirement System (SERS) and Sec. 305 adds a new section to the Public Employees' Retirement System (PERS).

NOTE: This fiscal analysis assumes the Department will apply for a determination from the IRS under their historical process. However, the IRS has currently put a halt on issuing this type of ruling while it works on regulations defining a governmental plan employer under IRC Section 414(d). It is unclear when the IRS intends to reopen the process and/or issue new regulations, and when such a ruling from the IRS could be received.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

No impact.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

DRS will seek a ruling from the IRS that a charter school can participate in a governmental pension plan. Special tax counsel familiar with IRS plan qualification issues will be contracted, through the Attorney General's Office, for this effort.

IRS filing fee (at \$10,000 for each ruling request: TRS, SERS and PERS) = \$30,000

One-time cost for tax counsel to lead plan determination effort = \$50,000

Total Estimated Plan Qualification Costs (11-13 Biennium) = \$80,000

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services		80,000	80,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$0	\$80,000	\$80,000	\$0	\$0

### Part IV: Capital Budget Impact

**Non-zero but indeterminate cost. Please see discussion.**

No impact.

### Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

Existing rules may need to be updated to reflect the inclusion of charter schools in the state's pension systems.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> 275-Public Employment Relations Comm
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## Part I: Estimates

No Fiscal Impact

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	0.0	0.0	1.0	1.0
<b>Account</b>					
General Fund-State 001-1	0	0	0	237,000	224,000
<b>Total \$</b>	0	0	0	237,000	224,000

**Estimated Capital Budget Impact:**

**Non-zero but indeterminate cost. Please see discussion.**

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: Mike Sellars	Phone: 360-570-7306	Date: 07/25/2012
Agency Approval: Mike Sellars	Phone: 360-570-7306	Date: 07/25/2012
OFM Review: Garry Austin	Phone: 360-902-0564	Date: 08/08/2012

Request # -2

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Initiative 1240 authorizes the creation of Charter Schools within the state of Washington. Under Section 215 of the Act, a maximum of 40 charter schools may be established statewide, with no more than 8 established each year.

Under Section 307, the provisions of Chapter 41.56 RCW apply to the classified employees of a charter school.

Under Section 308, the provisions of Chapter 41.59 RCW apply to the certificated employees of a charter school.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

The classified and certificated employees at a charter school established under I-1240 constitute a new group of employees not previously under PERC's jurisdiction with no previous bargaining history.

For each charter school created, the potential exists for the creation of multiple new bargaining units of employees.

For certificated teachers, RCW 41.59.080 permits no more than one bargaining unit of nonsupervisory certificated teachers, and one bargaining unit of supervisory certificated teachers. For classified employees, RCW 41.56.060 permits multiple bargaining units of classified employees provided each unit is appropriate.

For each new bargaining unit of certificated and classified employees, PERC also anticipates the potential for new mediation cases to assist the parties in reaching agreement over the terms of a collective bargaining agreement. Due to the complex nature and time requirements of school teacher mediation cases, PERC typically assigns two mediators for each case. Additionally, PERC expects new unfair labor practices cases in the event an exclusive bargaining representative or charter school alleges that an unfair labor practice has occurred. PERC's mediation and unfair labor practice workload is dependent upon the parties' ability or inability to reach a mutually agreeable solution.

Because the potential exists for 8 new schools per year, PERC anticipates at least 8 new representation cases per year for certificated teachers, and at least 8 new cases per year for classified employees, for a total of 16 new representation cases. Additionally, PERC anticipates at least 8 new mediation cases for the certificated teachers (double staffed) as well as 8 new mediation cases for the classified employees, for a total of 24 staff cases. PERC also anticipates 16 unfair labor practices per year. PERC does not expect any expenditures for FY13.

One Labor Relations Adjudicator/Mediator (LRAM) handles approximately 50 cases per year. Accordingly, PERC

anticipates that it will require 1 LRAM per biennium (\$225,000) to enact I-1240.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years				1.0	1.0
A-Salaries and Wages				170,000	170,000
B-Employee Benefits				46,000	46,000
C-Personal Service Contracts					
E-Goods and Services				13,000	2,000
G-Travel				4,000	6,000
J-Capital Outlays				4,000	
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$0	\$0	\$0	\$237,000	\$224,000

#### III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2012	FY 2013	2011-13	2013-15	2015-17
Labor Relations Adjudicator/Mediator	85,000				1.0	1.0
<b>Total FTE's</b>	85,000				1.0	1.0

### Part IV: Capital Budget Impact

Non-zero but indeterminate cost. Please see discussion.

### Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

PERC will need to engage in rule making to ensure that employees in charter schools are not be included in bargaining units in schools in surrounding school districts.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> 350-Supt of Public Instruction
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

NONE

### Estimated Expenditures from:

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	2.3	1.2	2.3	2.3
<b>Account</b>					
General Fund-State 001-1	0	410,235	410,235	584,670	584,670
<b>Total \$</b>	0	410,235	410,235	584,670	584,670

### Estimated Capital Budget Impact:

Non-zero but indeterminate cost. Please see discussion.

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

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- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: JoLynn Berge	Phone: 360 725-6301	Date: 07/25/2012
Agency Approval: JoLynn Berge	Phone: 360 725-6301	Date: 07/25/2012
OFM Review: Garry Austin	Phone: 360-902-0564	Date: 08/08/2012

Request # I 1240-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Section 209: Requires the SBE to establish an annual application and approval process and timelines for entities seeking approval to be charter school authorizers no later than 90 days after the effective date. The SBE shall consider the merits of each application and make its decision within established timelines. The SBE must execute a renewable authorizing contract with the entity – with an initial term of six years. This section would also require the office of superintendent of public instruction (OSPI) support for contract approval, as the SBE's fiscal agent

Section 211: Requires the SBE to establish a statewide formula for an authorizer oversight fee, calculated as a percentage of the state operating funding, but limited to four percent of a charter school's annual funding.

Section 212: Requires the SBE to be responsible for the oversight of performance and effectiveness of all approved authorizers which may include special reviews regarding performance or well-founded complaints. This section also provides the SBE with the authority to revoke the authorizer's chartering authority or to require satisfactory remedy for violations or deficiencies. The SBE is required to establish timelines and a process for taking actions.

Section 214: The SBE must establish an annual statewide timeline for charter application submissions and approval or denial, which must be followed for all authorizers.

Section 215: Identifies that a maximum of 40 charter schools may be established over five years and no more than 8 charter schools may be established each calendar year. Requires the SBE to certify whether the charter school approval is in compliance with the limits regarding the limit on the maximum number of charter schools. The SBE must notify authorizers when the maximum allowable number of charter schools has been reached each year.

Section 218: Outlines requirements of each authorizer for monitoring of charter schools, and corrective action or sanctions that may be taken by authorizers for noncompliance or deficient charter schools.

Section 219: Outlines requirements for authorizers to renew a charter school, including issuance of a performance report and renewal application guidance.

Section 220: Requires authorizers to develop a revocation and nonrenewal process, and a corresponding report to SBE and to the charter school.

Section 221: Requires the SBE to review petitions to transfer charters to a different authorizer. Requires authorizers to develop a termination or dissolution protocol for timely notification to parents and to address the transition for students.

Section 222: Charter schools will report student enrollment in the same manner and based on the same definitions of enrolled students and annual average FTE enrollment as other public schools. Allocations will be based on statewide average staff mix ratios of non-charter public schools from the prior year. Allocations for pupil transportation must be calculated on a per student basis based on the allocation for the previous school year to the school district in which the charter school is located. Amounts payable to the charter school in the first year of operation are based on the

projections of first year student enrollment established in the charter contract. OSPI must reconcile the amounts paid in the first year of operation to the amounts that would have been paid based on actual student enrollment and make adjustments to allocations over the course of the second year of operation. For charter schools authorized by a school district, allocations to a charter school shall be included in levy planning, budgets and funding distribution in the same manner as other schools in the district. New charter schools are not eligible for local levy moneys approved by the voters before the start-up date of the school unless the local school district is the authorizer. For levies submitted to voters after the start-up date of a charter school authorized under this chapter, the charter school must be included in levy planning, budgets, and funding distribution in the same manner as other public schools in the district. Any moneys received by a charter school from any source and remaining in the school's accounts at the end of any budget year shall remain in the school's accounts for use by the school during subsequent budget years.

Section 223: Charter schools are eligible for state matching funds for common school construction.

Section 224: Years of service in a charter school by certificated instructional staff shall be included in the years of service calculation for purposes of the statewide salary allocation schedule under RCW 28A.150.410.

Section 225: The SBE must issue an annual report on the state's charter schools for the preceding school year to the governor, the legislature and the public at-large. This report is based on reports submitted by each authorizer as well as any additional relevant data compiled by the board. The report must include the SBE's assessment of the successes, challenges, and areas for improvement, including the board's assessment of the sufficiency of funding, the efficiency of the formula for authorizer funding, any suggested changes in state law, and whether additional charter schools should be authorized.

## **II. B - Cash receipts Impact**

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

None.

## **II. C - Expenditures**

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

## **STATE BOARD OF EDUCATION**

The following sections 209, 211, 212, 214, 215, 221 and 225 require additional staffing at the State Board of Education. The individual work required under each section is outlined below, but in total they represent a need for an additional 1.0 FTE WMS Band 3 employee beginning in FY2013 and for each year thereafter (\$142,000 in FY13 and \$137,000 each year thereafter, including goods, services and travel). In addition, a .33 FTE administrative assistant time is required and represents an added 0.33 FTE beginning in FY2013 and for each year thereafter (\$29,000 in FY13 and \$24,000 each year thereafter, including goods, services and travel). It is further assumed that funding for contract services will be required after the law is in place, but the amount of those services cannot be determined at this time.

Section 209: Requires the SBE to establish an annual application and approval process and timelines for entities seeking

approval to be charter school authorizers no later than 90 days after the effective date. The SBE shall consider the merits of each application and make its decision within established timelines. The SBE must execute a renewable authorizing contract with the entity – with an initial term of six years.

Section 210: Outlines responsibilities for authorizers, including evaluating charter applications, approving charter applications, monitoring the performance and legal compliance of charter schools, determining whether charters should be renewed, developing policies and practices for charter schools, and submitting an annual report to the SBE on charter academic and financial performance. Requires authorizers to prepare and submit annually financial statements that conform with generally accepted accounting principles.

Section 211: Requires the SBE to establish a statewide formula for an authorizer oversight fee, calculated as a percentage of the state operating funding, but limited to four percent of a charter school’s annual funding.

Section 212: Requires the SBE to be responsible for the oversight of performance and effectiveness of all approved authorizers which may include special reviews regarding performance or well-founded complaints. This section also provides the SBE with the authority to revoke the authorizer’s chartering authority or to require satisfactory remedy for violations or deficiencies. The SBE is required to establish timelines and a process for taking actions.

Section 213: Requires authorizers to annually issue an RFP and outlines required components for charter school applications.

Section 214: The SBE must establish an annual statewide timeline for charter application submissions and approval or denial, which must be followed for all authorizers.

Section 215: Identifies that a maximum of 40 charter schools may be established over five years and no more than 8 charter schools may be established each calendar year. Requires the SBE to certify whether the charter school approval is in compliance with the limits regarding the limit on the maximum number of charter schools. The SBE must notify authorizers when the maximum allowable number of charter schools has been reached each year.

Section 221: Requires the SBE to review petitions to transfer charters to a different authorizer.

Section 225: The SBE must issue an annual report on the state’s charter schools for the preceding school year to the governor, the legislature and the public at-large. This report is based on reports submitted by each authorizer as well as any additional relevant data compiled by the board. The report must include the SBE’s assessment of the successes, challenges, and areas for improvement, including the board’s assessment of the sufficiency of funding, the efficiency of the formula for authorizer funding, any suggested changes in state law, and whether additional charter schools should be authorized.

#### OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION SUMMARY DESCRIPTION

This initiative creates a new classification of schools, charter schools, within the common school system. Charter schools would be eligible for basic education funding from the state. While new charter schools would be created, it is assumed

that negligible growth in enrollment would occur if charter schools are authorized. Individual district enrollment could decline, but overall state enrollment is assumed to remain the same. If a net increase in enrollment were to occur per student costs (\$11,624 per FTE), using average school year 2011-2012 costs, are outlined in Attachment A.

#### EXPENDITURE IMPACT

Section 209: Requires additional time from the office of superintendent of public instruction (OSPI) support for contract establishment and approval, as the SBE's fiscal agent. Assumed 0.1 FTE per year of a fiscal analyst 2 in each year of the analysis, or \$7,000 per year.

Section 222: Charter schools will report student enrollment in the same manner and based on the same definitions of enrolled students and annual average FTE enrollment as other public schools. Allocations will be based on statewide average staff mix ratios of non-charter public schools from the prior year. Allocations for pupil transportation must be calculated on a per student basis based on the allocation for the previous school year to the school district in which the charter school is located. Amounts payable to the charter school in the first year of operation are based on the projections of first year student enrollment established in the charter contract. OSPI must reconcile the amounts paid in the first year of operation to the amounts that would have been paid based on actual student enrollment and make adjustments to allocations over the course of the second year of operation. Within OSPI, an additional WMS Band 2 employee would be required in the school apportionment and financial services section to implement the requirements monthly and perform reconciliations. The current systems would not accommodate the requirements here, so functions would need to be developed and implemented separate from existing systems. It is assumed that this would require one FTE at WMS Band 2 ongoing, beginning in FY2013, or \$129,335 in FY13 and \$124,335 each year thereafter, including all goods, services and travel, and an additional \$102,900 in FY13 only for programming changes to existing systems and reports.

OSPI assumes that charter schools are not eligible for small school funding, so no additional state expenditures are estimated for that allocation.

OSPI believe the impact on levy equalization (i.e. LEA) to be indeterminate. If charter schools authorized by the Commission are determined to be able to share in a district's local levy proceeds, the charter schools financial information would then be included in the district's levy base and could result in higher LEA costs to the state.

Section 223: Charter schools are eligible for state matching funds for common school construction. This section will potentially have an impact but OSPI is not able to determine a specific impact as it is unknown where charter schools will be located, the facilities available and other factors that determine funding.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		2.3	1.2	2.3	2.3
A-Salaries and Wages		183,510	183,510	367,020	367,020
B-Employee Benefits		79,047	79,047	158,094	158,094
C-Personal Service Contracts		102,900	102,900		
E-Goods and Services		13,566	13,566	27,132	27,132
G-Travel		16,212	16,212	32,424	32,424
J-Capital Outlays		15,000	15,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$0	\$410,235	\$410,235	\$584,670	\$584,670

#### III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2012	FY 2013	2011-13	2013-15	2015-17
Administrative Assistant 3	40,524		0.3	0.2	0.3	0.3
WMS Band 2	77,259		1.0	0.5	1.0	1.0
WMS Band 3	88,295		1.0	0.5	1.0	1.0
<b>Total FTE's</b>	206,078		2.3	1.2	2.3	2.3

### Part IV: Capital Budget Impact

Non-zero but indeterminate cost. Please see discussion.

### Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

SBE would require rule changes to outline timelines and other implementation issues, as would OSPI.

**Attachment A: Apportionment per student FTE**

Apportionment Account	Average per Student FTE for school year 11-12	
General Apportionment	\$	5,139
Special Education	\$	4,658
Learning Assistance (LAP)	\$	284
Transitional Bilingual	\$	859
Highly Capable	\$	9
Pupil Transportation	\$	675
<b>Total</b>	<b>\$</b>	<b>11,624</b>

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> AFN-Actuarial Fiscal Note - State A
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**Part I: Estimates**

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

NONE

**Estimated Capital Budget Impact:**

**Non-zero but indeterminate cost. Please see discussion.**

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: Aaron Gutierrez	Phone: 360-786-6152	Date: 07/24/2012
Agency Approval: Lisa Won	Phone: 360-786-6150	Date: 07/24/2012
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 08/08/2012

Request # I-1240-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

## Part III: Expenditure Detail

### III. A - Expenditures by Object Or Purpose

NONE

## Part IV: Capital Budget Impact

Non-zero but indeterminate cost. Please see discussion.
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## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

# **Actuary's Fiscal Note For Initiative 1240**

## **SUMMARY OF RESULTS**

Initiative 1240 authorizes the creation of charter schools. We do not expect that this initiative will impact the funding of the Washington State retirement systems.

## **HIGHLIGHTS OF ACTUARIAL ANALYSIS**

Based on the assumption that this initiative does not change the number of children enrolling in public schools, we do not expect a material increase in the number of teachers, school employees, or administrators covered under the retirement systems. We also do not expect this will change the demographic profile of each plans' membership.

However, it is possible that this initiative could increase the number of employees and/or change current pay practices. If so, these changes could potentially increase or decrease the contribution rates of the Plans 2/3. Additionally, increasing the number of employees and hence the salary base would decrease the contribution rates for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL). Note, however, that the same amount of total dollars will be collected to fund the UAAL for the Plans 1.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

# Actuary's Fiscal Note For Initiative 1240

## WHAT IS THE PROPOSED CHANGE?

### Summary Of Change

The following summary addresses only the provisions of the initiative that impact Washington's retirement systems.

Initiative 1240 impacts the following systems:

- ❖ Public Employees' Retirement System (PERS).
- ❖ Teachers' Retirement System (TRS).
- ❖ School Employees' Retirement System (SERS).

The initiative authorizes the creation of charter schools. Charter schools are defined by the initiative as public schools governed by a charter school board and operated according to the terms of a charter contract.

Charter schools can be created as new schools, or converted from existing public schools. A maximum of 40 charter schools may be created in a five-year period. No more than eight can be created in a single year within that period, except that if less than eight are created in a year, the option to create the remaining schools can be banked for future years. In other words, if seven charter schools are created in one year, nine may be created in the next.

Charter schools are designated as employers for the purpose of retirement system membership. Charter school employees are designated as members of either PERS, TRS, or SERS. These system membership provisions are contingent on the Department of Retirement Systems (DRS) obtaining determination from the Internal Revenue Service that such membership would not jeopardize the status of these plans.

Years of service for certified staff at charter schools must be included in the service calculation used for the statewide salary allocation schedule. However, this provision does not require charter schools to pay particular salaries.

Effective Date: 30 days after the November 2012 Ballot, if approved by the voters.

### What Is The Current Situation?

Employees in Washington public schools may be members of PERS, TRS, and SERS depending on their position and hire date.

The following information provides a very high level description of plan membership. For complete details on plan membership and other provisions, please see the [DRS Handbooks](#) or the relevant statutes, [RCW 41.40](#), [RCW 41.32](#) and [RCW 41.35](#).

## **Actuary's Fiscal Note For Initiative 1240**

PERS is the retirement system for most general public employment, and spans a variety of positions and employers.

TRS membership is limited to employees who provide classroom instruction at a school or Educational Service District (ESD). While teachers are the most obvious members, TRS membership also includes others who are serving, or have served, in an instructional capacity. This includes, for example, school principals, some administrators, and doctors hired to provide classroom instruction.

SERS membership covers classified employees in schools and ESDs. This generally includes positions such as administrative staff, custodial staff, and bus drivers.

### **Who Is Impacted And How?**

We estimate this initiative could affect any of the 275,190 active members who get hired in a charter school out of the total 398,043 members of these systems. This initiative could impact all 149,626 active Plan 2 members of these systems through a change in contribution rates. This initiative will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this initiative will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

### **WHY THIS INITIATIVE COULD HAVE A COST OR SAVINGS AND WHO PAYS FOR IT**

#### **Why This Initiative Could Have A Cost or Savings**

If the resulting charter schools change the future expected benefits payable under the systems, this initiative could have a cost or savings. For example, a provision in the initiative does not require charter schools to pay salaries according to the state wide schedule. Providing higher or lower compensation than expected would result in gains or losses to the plans. Furthermore, if this initiative increases membership and the new members change the demographic characteristics or behavior of the plan on average, this could also impact the expected future benefits and hence the required funding.

#### **How Will These Costs or Savings Emerge?**

Any costs or savings that do occur would emerge over time as future contribution rate changes, payable according to the usual funding method for each plan.

- ❖ Plan 1 and Plan 3: 100 percent employer.
- ❖ Plan 2: 50 percent member and 50 percent employer.

# Actuary's Fiscal Note For Initiative 1240

## HOW WE VALUED THESE COSTS

We assumed that this initiative will not materially change the number of teachers, school employees, or administrators covered under the retirement systems. We also do not expect this will change the average demographic profile of each plans' membership.

Otherwise, we developed these costs using the same assumptions, methods, assets, and data as disclosed in the *June 30, 2010 Actuarial Valuation Report* (AVR).

## ACTUARIAL RESULTS

### How The Liabilities Changed

This initiative does not have an expected change to the present value of future benefits payable, so there is no impact on the actuarial funding of the affected plans due to liability changes.

### How The Present Value of Future Salaries (PVFS) Changed

This initiative does not have an expected change to the PVFS of the members, so there is no impact on the actuarial funding of the affected plans due to PVFS changes.

### How Contribution Rates Changed and the Impact on Budgets

This initiative does not have an expected change to the contribution rates. As a result, this initiative does not have an expected change to the budget.

The analysis of this initiative does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually. As with the costs developed in the actuarial valuation, the emerging costs of the systems will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from the actuarial assumptions.

### How the Risk Measures Changed

We have not analyzed this initiative using the risk assessment model. We chose not to because we believe the impact would be minor.

# Actuary's Fiscal Note For Initiative 1240

## WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the initiative as of the date shown in the footer. We intend this fiscal note to be used by the Office of Financial Management (OFM) as required for Initiative 1240 on the November 2012 Ballot.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

## ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for OFM as required for Initiative 1240 on the 2012 November Ballot.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.



Lisa A. Won, ASA, FCA, MAAA  
Actuary

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# Actuary's Fiscal Note For Initiative 1240

## GLOSSARY OF ACTUARIAL TERMS

**Actuarial Accrued Liability:** Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

**Aggregate Funding Method:** The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded actuarial accrued liability. The normal cost is determined for the actuarial accrued group rather than on an individual basis.

**Entry Age Normal Cost Method (EANC):** The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- ❖ Normal cost.
- ❖ Amortization of the unfunded actuarial accrued liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Projected Unit Credit (PUC) Liability:** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

**Projected Benefits:** Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Unfunded PUC Liability:** The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

# Individual State Agency Fiscal Note

<b>Bill Number:</b> 1240 XIP	<b>Title:</b> creation of a public charter school system	<b>Agency:</b> SDF-School District Fiscal Note - SPI
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**Part I: Estimates**

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years	0.0	0.6	0.3	0.4	0.4
<b>Account</b>					
Local School District-Private/Local NEW-7	0	95,000	95,000	98,000	106,000
<b>Total \$</b>	0	95,000	95,000	98,000	106,000

**Estimated Capital Budget Impact:**

**Non-zero but indeterminate cost. Please see discussion.**

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 07/18/2012
Agency Preparation: JoLynn Berge	Phone: 360 725-6301	Date: 07/26/2012
Agency Approval: JoLynn Berge	Phone: 360 725-6301	Date: 07/26/2012
OFM Review: Garry Austin	Phone: 360-902-0564	Date: 08/08/2012

Request # 1240I-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Section 209: Requires the SBE to establish an annual application and approval process and timelines for entities seeking approval to be charter school authorizers no later than 90 days after the effective date. The SBE shall consider the merits of each application and make its decision within established timelines. The SBE must execute a renewable authorizing contract with the entity – with an initial term of six years. This section would also require the office of superintendent of public instruction (OSPI) support for contract approval, as the SBE's fiscal agent

Section 211: Requires the SBE to establish a statewide formula for an authorizer oversight fee, calculated as a percentage of the state operating funding, but limited to four percent of a charter school's annual funding.

Section 212: Requires the SBE to be responsible for the oversight of performance and effectiveness of all approved authorizers which may include special reviews regarding performance or well-founded complaints. This section also provides the SBE with the authority to revoke the authorizer's chartering authority or to require satisfactory remedy for violations or deficiencies. The SBE is required to establish timelines and a process for taking actions.

Section 214: The SBE must establish an annual statewide timeline for charter application submissions and approval or denial, which must be followed for all authorizers.

Section 215: Identifies that a maximum of 40 charter schools may be established over five years and no more than 8 charter schools may be established each calendar year. Requires the SBE to certify whether the charter school approval is in compliance with the limits regarding the limit on the maximum number of charter schools. The SBE must notify authorizers when the maximum allowable number of charter schools has been reached each year.

Section 218: Outlines requirements of each authorizer for monitoring of charter schools, and corrective action or sanctions that may be taken by authorizers for noncompliance or deficient charter schools.

Section 219: Outlines requirements for authorizers to renew a charter school, including issuance of a performance report and renewal application guidance.

Section 220: Requires authorizers to develop a revocation and nonrenewal process, and a corresponding report to SBE and to the charter school.

Section 221: Requires the SBE to review petitions to transfer charters to a different authorizer. Requires authorizers to develop a termination or dissolution protocol for timely notification to parents and to address the transition for students.

Section 222: Charter schools will report student enrollment in the same manner and based on the same definitions of enrolled students and annual average FTE enrollment as other public schools. Allocations will be based on statewide average staff mix ratios of non-charter public schools from the prior year. Allocations for pupil transportation must be calculated on a per student basis based on the allocation for the previous school year to the school district in which the charter school is located. Amounts payable to the charter school in the first year of operation are based on the

projections of first year student enrollment established in the charter contract. OSPI must reconcile the amounts paid in the first year of operation to the amounts that would have been paid based on actual student enrollment and make adjustments to allocations over the course of the second year of operation. For charter schools authorized by a school district, allocations to a charter school shall be included in levy planning, budgets and funding distribution in the same manner as other schools in the district. New charter schools are not eligible for local levy moneys approved by the voters before the start-up date of the school unless the local school district is the authorizer. For levies submitted to voters after the start-up date of a charter school authorized under this chapter, the charter school must be included in levy planning, budgets, and funding distribution in the same manner as other public schools in the district. Any moneys received by a charter school from any source and remaining in the school's accounts at the end of any budget year shall remain in the school's accounts for use by the school during subsequent budget years.

Section 223: Charter schools are eligible for state matching funds for common school construction.

Section 224: Years of service in a charter school by certificated instructional staff shall be included in the years of service calculation for purposes of the statewide salary allocation schedule under RCW 28A.150.410.

Section 225: The SBE must issue an annual report on the state's charter schools for the preceding school year to the governor, the legislature and the public at-large. This report is based on reports submitted by each authorizer as well as any additional relevant data compiled by the board. The report must include the SBE's assessment of the successes, challenges, and areas for improvement, including the board's assessment of the sufficiency of funding, the efficiency of the formula for authorizer funding, any suggested changes in state law, and whether additional charter schools should be authorized.

## **II. B - Cash receipts Impact**

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

Section 211: While authorizers may receive up to 4% of the annual charter school funding to help pay for authorizer costs, OSPI assumes that this is not a net gain of revenue to the district, as we assume the majority of students in school district authorized charter schools are the districts own students from other schools, and currently districts have the flexibility to use their state allocations, and this would limit them to only having 4% to cover authorizer costs, which OSPI assumes could be around \$100,000 per year, which would likely would not cover the costs to perform all required authorizer functions. Therefore, no cash receipts are assumed for districts that are authorizers.

Cash receipts would not apply to districts who are not authorizers and where a commission authorized charter school is located.

## **II. C - Expenditures**

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

## **SUMMARY DESCRIPTION**

School districts who become authorizers will incur costs to operate as an authorizer and will have significant monitoring

and oversight responsibilities for approved charter schools that is over and above their normal costs for operating a traditional public school. Additionally, school districts where charter schools authorized by the Commission are located will likely incur costs related to the potential distribution of levy funding.

Each school district authorizer is assumed to incur \$95,000 in FY13 (or the planning year), \$49,000 in FY14-16 (Years 1-3 of overseeing a charter school) and \$57,000 in FY17 (Year 4 of operating and planning for renewals).

No assumption is made as to how many school districts will become authorizers, as this is deemed indeterminate.

## EXPENDITURES

Section 209: Outlines requirements for entities seeking to be approved as an authorizer. Authorizers must develop and submit an application to the SBE for approval. Per authorizer, this work would require 240 hours of administrator time in FY13 only.

Section 210: Outlines the responsibilities of approved authorizers, which include review and approval of charter applications, development of charter policies and practices, ongoing charter school oversight and evaluation and annual reporting to the SBE which would include a report on academic and financial performance of each charter school. Per authorizer, per year, this would require in average 320 hours of administrator time, 120 hours of classified time, \$5,000 per year for the preparation of financial statements that meet generally accepted accounting principles (most school districts do not prepare or report on this basis, which is a higher standard) and \$5,000 of legal costs for application and policy review (one time only in first year).

Section 211: Outlines funding for authorizers, which may be no more than 4% of the charter school's annual funding. While there is no impact due to the 4% rate, it is assumed that 4% of the annual funding that goes back to the authorizer to cover costs is insufficient to cover actual costs incurred. However, the exact amount is indeterminate, as it would depend on the size of the charter school and the actual formula for authorizer's fees determined by the SBE.

Section 213: Requires authorizers to annually issue an RFP and outlines required components for charter school applications. Estimated cost of 40 hours per year of administrator time and 12 hours of classified time.

Section 214: Outlines requirements for authorizers in the decision process for selecting charter schools. Estimated cost of 16 hours of administrator time.

Section 215: Outlines authorizer notification processes to the SBE for approved charters, and the process by which SBE notifies authorizers that the charter is approved, if a lottery is needed, and when the maximum number of charter schools has been reached. Estimated cost of 4 hours of administrator time.

Section 218: Outlines requirements of each authorizer for monitoring of charter schools, and corrective action or sanctions that may be taken by authorizers for noncompliance or deficient charter schools. Estimated cost of 32 hours per year of administrator time. This estimate does not include any time for noncompliant or deficient charter schools, as the number or frequency of this occurring cannot be determined.

Section 219: Outlines requirements for authorizers to renew a charter school, including issuance of a performance report

and renewal application guidance. Estimated cost of 120 hours of administrator time and 40 hours of classified time every 5 years. Based on an assumed first year start of school year 2013-2014, the first time these costs would be incurred would be 4 years later for use in the 5th year.

Section 220: Requires authorizers to develop a revocation and nonrenewal process, and a corresponding report to SBE and to the charter school. Estimated cost of 120 hours of administrator time, 40 hours of classified time and \$1,000 in legal fees in FY13 only for development of this process. Additional costs for determining a charter should be revoked or nonrenewed are not included in this estimate, as it is indeterminate how many times this would occur.

Section 221: Requires authorizers to develop a termination or dissolution protocol for timely notification to parents and to address the transition for students, records and assets. Estimated cost of 120 hours of administrator time, 40 hours of classified time and \$1,000 in legal fees in FY13 only for development of this process. Additional costs for the termination or dissolution of a charter are not included in this estimate, as it is indeterminate how many times this would occur.

Section 222: Outlines funding and related reporting for charter schools. OSPI assumes that school district authorizers will incur additional reporting and tracking costs, as this will require school based accounting and reporting for charter schools. Estimated cost of 160 hours of administrator time, 80 hours of classified time each year, and \$5,000 of system costs in the first year only.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2012	FY 2013	2011-13	2013-15	2015-17
FTE Staff Years		0.6	0.3	0.4	0.4
A-Salaries and Wages		60,123	60,123	67,712	74,716
B-Employee Benefits		12,600	12,600	14,550	14,943
C-Personal Service Contracts		17,000	17,000	10,000	10,000
E-Goods and Services		2,639	2,639	2,870	3,171
G-Travel		2,638	2,638	2,868	3,170
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$0	\$95,000	\$95,000	\$98,000	\$106,000

#### III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2012	FY 2013	2011-13	2013-15	2015-17
Certificated Administrator	106,235		0.5	0.3	0.3	0.3
Classified Staff	45,535		0.1	0.1	0.1	0.1
<b>Total FTE's</b>	151,770		0.6	0.3	0.4	0.4

### Part IV: Capital Budget Impact

Non-zero but indeterminate cost. Please see discussion.

## Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*