

# Fiscal Note

**BILL #** HB 2808

**TITLE:** schools; operation; improvements

**SPONSOR:** Udall

**STATUS:** As Introduced

**PREPARED BY:** Patrick Moran

## Description

The bill would establish the Operation Excellence School Improvement program.

## Estimated Impact

Based on letter grades assigned by the State Board of Education (SBE) for the 2018-2019 school year, we estimate the bill would result in at least \$41.0 million in annual General Fund distributions to schools between FY 2023 and FY 2025. The cost could rise to the full \$58.0 million appropriation in the bill if SBE's 2021-2022 letter grades expand the number of eligible schools or if enrollment in such schools increases.

Beginning in FY 2028, the bill may generate additional costs as a result of the provision that SBE require district schools with a D or F letter grade for 2 consecutive years to either contract with a "District Partnership School" or to relinquish its control of the school to a "Fresh Start School" operated by a different entity. SBE would have authority to pursue options other than "District Partnership Schools" or "Fresh Start Schools" if neither option is considered practicable, including installing a new superintendent in the district or closing or consolidating the D or F school.

As a result of these different options, we cannot predict in advance how many schools would become district partnership or fresh start schools. If that were to occur, however, we have outlined the potential maximum fiscal impacts. We expect the actual cost would be lower and would only materialize incrementally over several years.

- Basic State Aid costs would increase for "Fresh Start Schools" that are charter operators because charter schools receive an estimated \$915 more in per pupil Basic State Aid funding than district schools. Given the 68,000 students enrolled in a district school with a D or F letter grade for FY 2019, these district-to-charter conversions could cost a maximum of \$62.2 million annually.
- Both "District Partnership Schools" and "Fresh Start Schools" would be eligible for onetime startup funding from the Arizona Department of Administration (ADOA) of up to \$2,000 per pupil. Given the 75,000 total students in D or F schools, the maximum cost of this provision would be \$150.0 million in one-time expenses. This cost would only occur, however, if the Legislature appropriated additional funds for these grants.
- Districts may experience lower building renewal expenses as a result of lease agreements with operators of "Fresh Start Schools" or "District Partnership Schools" that would make the leasing entity responsible for maintenance.

The State Board of Education would incur administrative costs associated with its oversight of school improvement plans for schools participating in Operation Excellence. The bill appropriates \$1.0 million and 7 FTE Positions from the General Fund for these expenses.

The Arizona Achievement District Board established within ADOA would also experience administrative workload associated with reviewing and approving schools that apply to become members of the Arizona Achievement District, administering start-up grants for "District Partnership Schools" and "Fresh Start Schools," and conducting periodic performance reviews of "District Partnership Schools" and "Fresh Start Schools."

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**Analysis**

The Operation Excellence School Improvement Program would establish new processes and interventions for schools with a low letter grade from the SBE. A school that receives a letter grade of D or F in either the 2018-19 school year or the 2021-2022 school year would be required to pursue one of the following 4 options:

- 1) Establish an Operation Excellence Committee, which would be tasked with developing a school improvement plan and contracting with a third party entity to assist with implementation of the plan. Schools electing this option would receive \$150 per pupil or, for schools receiving the small school weight under the Basic State Aid formula, a minimum of \$30,000. Monies would be distributed by a new 'School Achievement Improvement Fund' to be administered by the Arizona Department of Education (ADE) at the direction of SBE.
- 2) Establish a contract with a "District Partnership School," which would include a district school or a charter school that has been selected by the Arizona Achievement District Board established by the bill within the Arizona Department of Administration (ADOA). To be selected as a District Partnership School, a school would have to receive an A letter grade for at least 2 consecutive years or be an out-of-state charter operator meeting performance criteria specified by the Board. The contract with the District Partnership School would have to last at least 15 years and be irrevocable, except that the Arizona Achievement District Board would conduct performance reviews every 3 years for each contract.
- 3) Relinquish control of the school and instead allow for the establishment "Fresh Start School" that would replace the D or F school and would instead be operated directly by an Achievement District School. The replacement school would be at the same location as the former district school or, if the Arizona Achievement District Board deems it necessary, at a different site within the same attendance boundaries of the original school.
- 4) Close or consolidate the D or F school.

Given that Option 1 would be associated with a funding increase, we assume most D or F schools would choose to receive the \$150 per pupil allocation and complete the associated school improvement plan. For letter grades issued in FY 2020 (based on 2018-2019 data), there were 193 schools statewide that received a D or F, including 49 F schools and 144 D schools. Based on school attendance data from ADE, the F schools had total enrollment of approximately 15,000 students, while the D schools had enrollment of approximately 60,000 students. We estimate that the \$150 per pupil allocation (or \$30,000 minimum, as applicable) would generate funding of \$2.5 million for F schools and \$9.4 million for C schools, or \$11.9 million in total. The cost would be higher if there are additional schools that receive a D or F in FY 2023 or if enrollment in D or F schools grows.

The bill would also allow but not require schools receiving a C letter grade for the 2018-2019 school year or the 2021-2022 school year and that have at least a 60% Free and Reduced Price Lunch (FRPL) eligibility rate to enroll in Operation Excellence. Based on FRPL data published by ADE and SBE's 2018-2019 letter grades, we estimate there would be at least 376 eligible schools with approximately 189,000 students. We estimate the \$150 per pupil allocation would generate an additional cost of \$29.1 million. To the extent that there are more schools that receive a C letter grade for 2021-2022 or if enrollment in such schools grows, the cost could be higher.

<b>Letter Grade</b>	<b>Students</b>	<b>Cost (\$ in M)</b>
C (60%+ FRPL)	189,000	29.1
D	60,000	9.4
F	<u>15,000</u>	<u>2.5</u>
	<b>264,000</b>	<b>41.0</b>

The total estimated cost for all students in schools assumed to participate in Operation Excellence based on their 2018-2019 letter grades and enrollment data is summarized in *Table 1*. In comparison to the \$41.0 estimated cost, the bill appropriates \$58.0 million from the General Fund in each of FY 2023, FY 2024, and FY 2025. Of that amount, \$1.0 million would be distributed to SBE for the administrative costs incurred by the agency in overseeing the program, leaving \$57.0 million available for distributions to schools. As a result, the \$57.0 million remaining exceeds our estimate of the cost by \$16.0 million. We expect,

however, that the difference between the actual appropriation and the cost would shrink once new letter grades are issued for the 2021-2022 school year.

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### Long-Run Fiscal Impacts

Beginning in FY 2028, the bill would require the State Board of Education to establish a "District Partnership School" or a "Fresh Start School" for any district school that has received a D or F for 2 consecutive years, except if the board determines that neither option is "practicable" the school district could instead install a new superintendent of the district or close or consolidate the school. There could be the following fiscal impacts beginning in FY 2028 based on these options:

- In cases where SBE determines that a "Fresh Start School" is the best option for the district, there could be Basic State Aid cost increases if the Achievement District School that is chosen to operate the replacement school is a charter school instead of a district school. Under the formula, we estimate that charters receive an average of \$915 more per pupil in formula funding, primarily as a result of higher funding for Charter Additional Assistance compared with District Additional Assistance.

Of the 75,000 current students in D or F schools, we estimate approximately 68,000 are enrolled in district schools. If the 68,000 enrolled in a "Fresh Start School" that converted their original district school to a charter, the ongoing annual formula cost increase would be approximately \$62.2 million ( $\$915 \times 68,000$  pupils = \$62.2 million). We cannot determine in advance, however, how many schools would ultimately be required to pursue a "Fresh Start School" or how many such schools would be charters instead of district schools. As a result, we expect the actual cost would be less than \$62.2 million and would only materialize incrementally over several years.

- The bill also establishes the "Arizona Expanding Excellence Fund" to be administered by the Arizona Achievement District Board within ADOA. The fund would be used to distribute one-time "seed" funding to "District Partnership Schools" or "Fresh Start Schools" of up to \$2,000 per pupil. Given the 75,000 students in D or F schools for 2018-2019, if all such students eventually attended a "District Partnership School" or a "Fresh Start School" the seed funding grants could generate a one-time cost of up to \$150.0 million ( $\$2,000 \times 75,000 = \$150,000,000$ ). The bill, however, does not contain any legislative appropriations for deposit in the fund. As a result, these costs would only materialize if the Legislature appropriated additional monies to the fund and if all eligible schools applied for the monies.

The bill could also impact new school construction and building renewal expenses within ADOA's School Facilities Division. "District Partnership Schools" and "Fresh Start Schools" would be authorized to lease or purchase vacant or partially used district building space. To the extent that these spaces are leased, the bill stipulates that such leases shall be "triple net," meaning that the leasing entity would be responsible for maintenance, insurance, and other non-rent expenses associated with the facility. As a result, these leases could lower district building renewal funding requirements. In addition, for the purposes of the SFD new school construction formula, leased district space is included in calculations of pupils per square foot, so districts with such leases would be less likely to qualify for new school construction funding relative to current law.

### **Local Government Impact**

To the extent that the bill results in school districts with D or F schools relinquishing control of their schools via a "Fresh Start School," the bill could lead to district enrollment declines which would reduce their Basic State Aid entitlement. District capital needs could also be impacted by lease provisions associated with either "District Partnership Schools" or "Fresh Start Schools."

2/18/22