

AN ACT relating to charter schools and making an appropriation therefor.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔SECTION 1. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) The General Assembly hereby establishes a charter school pilot project to benefit parents, teachers, and community members by creating new, innovative, and more flexible ways of educating all children within the public school system and by advancing a renewed commitment to the mission, goals, and diversity of public education. The purposes of the charter school initiative are to:

(a) Improve student learning by creating more high-performing schools with high standards for student performance;

(b) Encourage the use of different, high-quality models of teaching, governing, scheduling, or other aspects of schooling that meet a variety of student needs;

(c) Close achievement gaps between high-performing and low-performing groups of public school students;

(d) Allow schools freedom and flexibility in exchange for exceptional levels of results-driven accountability;

(e) Increase high-quality educational opportunities within the public education system for all students, especially those at risk of academic failure; and

(f) Provide students, parents, community members, and local entities with expanded opportunities for involvement in the public education system.

(2) (a) The charter school pilot program shall allow a maximum of four (4) charter schools to be established annually beginning in academic year 2016-2017 and continuing through academic year 2020-2021. The total number of charter schools established over the five (5) year period shall not exceed twenty (20).

- (b) Charter schools established during the time period shall continue to operate beyond the 2020-2021 academic year provided the charter school continues to meet or exceed state student performance measures adopted by the Kentucky Board of Education under KRS 158.6453, excluding non-tested program reviews, and academic program requirements found in the charter school's contract.
- (c) At least fifty percent (50%) of authorized charter schools shall be located in or within a three (3) mile radius of a public school in which a minimum of fifty percent (50%) of the students qualify for free or reduced-price lunch. The required boundary may be extended if a suitable building or building site is unavailable.

➔SECTION 2. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

As used in Sections 1 to 11 of this Act:

- (1) "Applicant" means teachers, parents, school administrators, community residents, public organizations, private organizations, or a combination thereof that seek approval from a charter school authorizer to establish a public charter school;
- (2) "Board of directors" means the governing body of a charter school;
- (3) "Charter contract" means a fixed-term, renewable contract between a charter school and an authorizer that identifies the roles, powers, responsibilities, and performance expectations for each party to the contract pursuant to Section 6 of this Act;
- (4) "Charter school" means a nonsectarian, nonreligious, tuition-free public school that operates in accordance with the charter and is:
- (a) Converted from an existing school that is part of a local school district; or
- (b) A new school;

- (5) "Charter school authorizer" or "authorizer" means an entity with the authority to approve the creation of a charter school. An "authorizer" may be:
- (a) A local board of a local school district; or
- (b) The Kentucky Public Charter School Commission;
- (6) "Charter school commission" means the Kentucky Public Charter School Commission established in Section 4 of this Act;
- (7) "Local board" means the local board of education of a local school district;
- (8) "Local school district" means a county or independent school district;
- (9) "Qualified teacher" means:
- (a) A person certified by the Education Professional Standards Board under KRS 161.030 or 161.048; or
- (b) A person who has a baccalaureate degree and exceptional work experience in the area in which he or she is hired to teach; and
- (10) "State board" means the Kentucky Board of Education.

➔SECTION 3. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

- (1) A charter school shall be part of the state's system of public education but exempt from all statutes and administrative regulations applicable to the state board, a local school district, and a school, except as provided in this section, although the charter school may voluntarily elect to comply with any statutes or administrative regulations.
- (2) A charter school or any third party contracted to manage the operations of a charter school shall:
- (a) Adhere to the same health, safety, civil rights, and disability rights requirements as are applied to public schools;
- (b) Ensure that students meet compulsory attendance requirements under KRS 158.030 and 158.100;

- (c) Ensure that high school course offerings meet or exceed the minimum required under KRS 156.160 for high school graduation;
 - (d) Ensure students' participation in required state assessment of student performance, excluding non-tested performance reviews, as required of other public school students under KRS 158.6453;
 - (e) Adhere to all generally accepted accounting principles and adhere to the same financial audits, audit procedures, and audit requirements as are applied to other public schools under KRS 156.265;
 - (f) Require state and criminal background checks for staff and volunteers as required of all public school employees and volunteers within the public schools and specified in KRS 160.380 and 161.148;
 - (g) Comply with open records and open meeting requirements under KRS Chapter 61;
 - (h) Comply with purchasing requirements and limitations under KRS Chapter 45, 156.074, and 156.480;
 - (i) Provide instructional time that is at least equal to the number of days or their equivalent under KRS 158.070; and
 - (j) Provide data to the Kentucky Department of Education and the authorizer as deemed necessary to generate a school report card under the provisions of KRS 158.6453.
- (3) (a) For purposes of ensuring compliance with the provisions of this section and the charter under which it operates:
1. A charter school authorized by a local board shall be administered by a charter school board of directors accountable to the local board in a manner agreed to in the charter contract, as negotiated between the charter school applicant and the local board; and
 2. A charter school authorized by the Public Charter School Commission

shall be administered by a charter school board of directors accountable to the commission, in a manner agreed to in the charter contract as negotiated between the applicant and the commission.

(b) A charter school authorizer shall:

1. Fulfill the expectations and intent of Sections 1 to 11, 12, 13, and 14 of this Act; and

2. Demonstrate public accountability and transparency in all matters concerning its charter-authorizing practices, decisions, and expenditures.

(4) A charter school shall be a governmental entity. Direct leases and financial obligations of a charter school shall not constitute debt or financial obligations of a local school district unless a local school board expressly assumes the obligations in writing.

(5) A charter school shall be responsible for its own operation, including but not limited to preparation of a budget, contracting for services, and personnel matters.

(6) A charter school may negotiate and contract with a local school board or any third party for the use, operation, and maintenance of a building and grounds, liability insurance, and the provision of any service, activity, or undertaking that the charter school is required to perform in order to carry out the educational program described in its charter. Any services for which a charter school contracts with a school district shall be provided by the district at cost. The charter school shall have standing to sue and be sued in its own name for the enforcement of any contract created pursuant to this subsection. A charter school may own, rent, or lease its space.

(7) A charter school shall be exempt from administrative regulations governing public schools for purposes of zoning and local land use regulation. The Finance

and Administration Cabinet shall annually publish a list of vacant and unused buildings and vacant and unused portions of buildings that are owned by the state and that may be suitable for the operation of a charter school and shall provide the list to applicants for charter schools and to existing charter schools upon request. At the request of a charter school or a prospective applicant for a charter school, a local board shall make available within forty-five (45) days of the request a list of vacant and unused school buildings and vacant and unused portions of school buildings within the local school district that may be suitable for the operation of a charter school. Notwithstanding any statute to the contrary, a charter school shall have a right of first refusal to purchase or lease at or below fair market value a closed public school facility or property or unused portions of a public school facility or property located in a school district from which it draws its students if the school district decides to sell or lease the public school facility or property.

(8) A charter school shall be nonsectarian in its programs, admissions policies, employment practices, and all other operations and shall not have entrance requirements or charge tuition or fees, except that a charter school may require the payment of fees on the same basis and to the same extent as other public schools.

(9) A charter school shall not discriminate against any student, employee, or any other person on the basis of ethnicity, religion, national origin, gender, or disability, special needs, or any other grounds that would be unlawful under federal and state laws.

(10) A charter school shall serve one (1) or more of grades kindergarten through twelve (12) and shall limit admission to students within the grade levels served.

(11) A charter school shall design its education programs to meet or exceed the student performance standards adopted by the Kentucky Board of Education as

required by KRS 156.160, including compliance with requirements under the statewide assessment system pursuant to KRS 158.6453, excluding non-tested program reviews.

(12) (a) Notwithstanding KRS 158.140, a board of directors of a charter school offering instruction in the high school grades may grant diplomas to students who successfully complete or exceed the minimum high school graduation requirements established by the Kentucky Board of Education under KRS 156.160.

(b) A diploma and certificate granted by a board of directors of a charter school shall entitle the recipient to all privileges and immunities which by usage or statute are allowed for similar diplomas granted by any other public school.

(13) A charter school shall provide programs and services to a student with a disability in accordance with the student's individualized education program and all federal and state laws, rules, and regulations. A charter school shall deliver the services directly or contract with another provider to deliver the services. A charter school shall establish an admission and release committee at the school and the committee shall:

(a) Develop an individualized education program for each student with a disability; or

(b) Review, revise, or utilize a student's individualized education program completed by the admissions and release committee of the student's former school. The committee shall work collaboratively with staff from the student's former school to review and revise a student's existing individualized education program.

(14) (a) A charter school may provide transportation for charter school students who reside within the attendance area of the local school district in which the charter school is located.

- (b) A charter school shall qualify for an allotment of transportation based on the actual number of students transported one (1) mile or more and as authorized in Section 14 of this Act. A charter school may contract with another entity for transportation services, including a local school district.
- (c) A charter school or any entity providing transportation for a charter school shall comply with all transportation and safety laws and administrative regulations applicable to public schools.
- (15) (a) A charter school shall be eligible for state-sponsored or district-sponsored interscholastic programs, awards, scholarships, or competitions to the same extent as other public schools if the school complies with administrative regulations promulgated by the Kentucky Board of Education.
- (b) A charter school has no obligation to provide extracurricular activities or access to facilities for students enrolled in the charter school, but a charter school may contract for students to participate in agreed-upon interscholastic athletics between the charter school and a school located in an area designated as the geographic area of residence. Notwithstanding KRS 156.070, students participating under this agreement shall be considered eligible to participate in interscholastic competitions by the Kentucky Board of Education or the agency designated by the state board to manage interscholastic athletics, if other eligibility requirements are met.
- (16) Nothing in this section shall be construed to prevent the establishment of a single-sex charter school consistent with federal regulations.
- (17) A charter school shall be nonsectarian and shall not be wholly or partly under the control or direction of any religious denomination or group in which any denominational tenet or doctrine would be taught.

➔SECTION 4. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

- (1) The Kentucky Public Charter School Commission is established as an independent state agency with statewide chartering jurisdiction and authority.
- (2) The mission of the Kentucky Public Charter School Commission is to authorize high-quality public charter schools throughout the Commonwealth, particularly schools designed to expand opportunities for at-risk students, and to ensure the highest standards of accountability and oversight for these schools.
- (3) The charter school commission shall establish and implement the uniform system of financial accounting and reporting used by local school districts.
- (4) The charter school commission shall ensure that proper monitoring and oversight are being provided to the charter school it authorizes.
- (5) By March 1 of each year in which a charter school authorized by the charter school commission is to begin operation, the commission shall provide a local school board with the number of pre-enrolled students residing within the district boundaries who will be attending the charter school. By January 1 for each subsequent year the school is in operation, the commission shall provide a local school board with the number of students residing within the district boundaries, based on the current year's average daily attendance, who will be attending the charter school in the upcoming school year.
- (6) (a) The charter school commission shall require each school it authorizes to submit a detailed account of fund expenditures and fund balances for each quarter of each fiscal year.

(b) The commission shall construct and maintain an electronic Web site and shall post on the site on a quarterly basis each school's quarterly report required under this subsection beginning with the quarter ending September 30 of each year. Reports shall be posted no later than ninety (90) days after the end of each quarter.
- (7) (a) The charter school commission shall consist of nine (9) members appointed

- by the Governor by July 31, 2015. Membership shall include no more than five (5) members of the same political party.
- (b) Commission members shall be subject to confirmation by the Senate in accordance with the provisions of KRS 11.160.
- (8) Members shall serve terms of four (4) years, except that the original appointments shall be made as follows:
- (a) Three (3) members for four (4) year terms;
- (b) Three (3) members for three (3) year terms; and
- (c) Three (3) members for two (2) year terms.
- (9) The Governor may reappoint a member to the commission, but no member shall serve more than two (2) consecutive terms.
- (10) Members appointed to the commission shall collectively possess experience and expertise in public and nonprofit governance, management and finance, public school leadership, assessment, curriculum and instruction, and public education law. All members of the commission shall have demonstrated understanding of and commitment to charter schooling as a strategy for strengthening public education.
- (11) A member of the commission may be removed for any cause that renders the member incapable or unfit to discharge the duties of the office.
- (12) A vacancy in the membership of the commission shall be filled by the Governor for the unexpired term.
- (13) The commission shall operate with dedicated resources and staff qualified to execute the day-to-day responsibilities of public charter school authorizing, including but not limited to completing and submitting to the Kentucky Department of Education all student and financial reports required of a local school district.
- (14) The commission shall adhere to all generally accepted accounting principles and

shall engage a qualified auditor to perform an audit of its finances on an annual basis.

→SECTION 5. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) An application to establish a charter school may be submitted to a charter school authorizer by teachers, parents, school administrators, community residents, public organizations, private organizations, or a combination thereof. For charter schools established in conjunction with a corporate entity, the charter shall specify the extent of the entity's participation in the management and operation of the school.

(2) The information provided on the application shall be consistent with the provisions of this section and shall include:

(a) A mission statement and a vision statement for the charter school, including the targeted student population and the community the school hopes to serve;

(b) A description of the school's proposed academic program aligned with state standards and that implements one (1) or more of the purposes described in Section 1 of this Act and the instructional methods that will support the implementation and success of the program;

(c) The student achievement goals for the charter school's educational program and the chosen methods of evaluating whether students have attained the skills and knowledge specified for those goals;

(d) The school's plan for using external, internal, and state-required assessments to measure student progress on the performance framework in accordance with Section 6 of this Act and how the school will use data to drive instruction and continued school improvement;

(e) The proposed governance structure of the school, including a list of

- members of the initial board of directors, a draft of bylaws that include the description of the qualifications, terms, and methods of appointment or election of directors, the organizational structure of the school, and the relationship between the school's administration and the board of directors;
- (f) Plans and timelines for student recruitment, enrollment, and lottery policies and procedures for the school, which shall be consistent with Section 12 of this Act;
- (g) A proposed five (5) year budget, including start-up and five (5) year budget projections with clearly stated assumptions, and draft fiscal and internal control policies for the charter school;
- (h) A draft handbook that outlines the personnel policies of the charter school, including the criteria to be used in the hiring of qualified teachers, school administrators, and other school employees, a description of staff responsibilities, and the school's plan to evaluate personnel on an annual basis;
- (i) A draft of the policies and procedures by which students may be disciplined, including students with disabilities, which shall be consistent with the requirements of due process and with state and federal laws and regulations governing the placement of students with disabilities;
- (j) A description of the facilities to be used by the school, including the location of the school, if known, and how the facility supports the implementation of the school's academic program. If the facilities to be used by the proposed school are not known at the time the application is submitted, the applicant shall notify the authorizer within ten (10) business days of acquiring facilities for the school. The school shall obtain certification of occupancy for the facilities at least thirty (30) days prior to the first student instructional day;

- (k) Plans for the transportation of students, including students with disabilities;
- (l) The proposed ages and grade levels to be served by the school, including the planned minimum and maximum enrollment per grade per year;
- (m) The school calendar and school day schedule, which shall total at least the number of days, or their equivalent, as required under KRS 158.070;
- (n) Types and amounts of insurance coverage to be obtained by the school, which shall include adequate insurance for liability, property loss, and the personal injury of students. The state board may promulgate administrative regulations to implement the provisions of this paragraph;
- (o) Evidence of community support for and interest in the school sufficient to allow the school to reach its anticipated enrollment;
- (p) A description of the health and food services to be provided to students attending the school;
- (q) Policies, methods, and strategies for serving students with disabilities in compliance with all federal laws and regulations relating thereto;
- (r) Procedures to be followed in the case of the closure or dissolution of the charter school, including provisions for the transfer of students and student records to the local school district in which the charter school is located or to another charter school located within the local school district;
- (s) A code of ethics for the school setting forth for its board of directors, officers, and employees the standards of conduct expected of them;
- (t) Plans for recruiting and developing staff;
- (u) A staffing chart for the school's first year and a staffing chart for the term of the charter;
- (v) Opportunities for parental and community involvement in the school, including the role of parents in the administration and governance of the school;

- (w) The school's plan for identifying and successfully serving students with disabilities, students who are English language learners, bilingual students, and students who are academically behind and gifted, including but not limited to the school's plan for compliance with all applicable federal and state laws and regulations;
- (x) A description of cocurricular and extracurricular programs and how they will be funded and delivered;
- (y) The process by which the school will resolve any disputes with the authorizer; and
- (z) A detailed start-up plan, including tasks, timelines, and individuals responsible for carrying out the plan.
- (3) If the proposed public charter school intends to contract with an education service provider for substantial educational services or management services, the request for proposal shall additionally require the applicant to:

 - (a) Provide evidence of the education service provider's success in serving student populations similar to the targeted population, including demonstrated academic achievement as well as successful management of nonacademic school functions, if applicable;
 - (b) Provide a term sheet setting forth:

 1. The proposed duration of the service contract;
 2. The roles and responsibilities of the governing board, the school staff, and the service provider;
 3. The scope of services to be provided by the service provider;
 4. Performance evaluation measures and timelines;
 5. Compensation structure, including clear identification of all fees to be paid to the service provider;
 6. Methods of contract oversight and enforcement;

7. Investment disclosure; and

8. Conditions for renewal and termination of the contract; and

(c) Disclose and explain any existing or potential conflicts of interest between the school governing board and the proposed service provider or any affiliated business entities.

(4) If a request for proposal is received from an applicant that currently operates one (1) or more schools in any state or nation, the request for proposal shall additionally require the applicant to provide evidence of past performance and current capacity for growth.

➔SECTION 6. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) A charter school authorizer shall:

(a) Solicit, invite, and evaluate applications from organizers of proposed public charter schools;

(b) Approve new and renewal charter applications that meet the requirements of this section;

(c) Deny charter applications that fail to meet the requirements of this section or are otherwise inadequate;

(d) Negotiate and execute in good faith a charter contract with each charter school it authorizes;

(e) Monitor the performance and compliance of public charter schools according to the terms of the charter contract;

(f) Determine whether each charter contract it authorizes merits renewal or revocation; and

(g) Establish and maintain policies and practices consistent with the principles and professional standards for authorizers of public charter schools, as adopted by the National Association of Charter School Authorizers,

including standards relating to:

1. Organizational capacity and infrastructure;
2. Soliciting and evaluating applications;
3. Performance contracting;
4. Ongoing public charter school oversight and evaluation; and
5. Charter approval, renewal, and revocation decision making.

(2) An applicant shall submit an application for approval of a charter school to an authorizer on or before July 1 of a calendar year.

(3) In reviewing applications, the charter school authorizer is encouraged to give preference to applications that demonstrate the intent, capacity, and capability to provide comprehensive learning experiences to:

- (a) Students identified by the applicants as at risk of academic failure;
- (b) Students residing in local school districts where at least fifty percent (50%) of students qualify for free and reduced-price lunch; and
- (c) Students with special needs as identified in their individualized education program, as defined in KRS 158.281.

(4) The application review process shall include a thorough evaluation of each application, an in-person interview with the applicant group, and an opportunity in a public forum for local residents to provide input and learn about the charter application. In deciding whether to approve a charter application, the authorizer shall:

- (a) Grant charters only to applicants that have demonstrated competence in all elements of the application requirements identified in this section and Section 5 of this Act;
- (b) Base decisions on documented evidence collected through the application review process; and
- (c) Follow charter-granting policies and practices that are transparent, based

on merit, and avoid conflicts of interest.

(5) (a) No later than sixty (60) days following the filing of the charter application, the authorizer shall decide to approve or deny the charter application in an open meeting of the authorizer's governing board.

(b) If an authorizer fails to act on a charter application within sixty (60) days of its filing, the application shall be forwarded to the Public Charter School Commission to decide, within thirty (30) days, its approval or denial.

(6) An application shall be approved if the charter school authorizer finds that:

(a) The charter school described in the application meets the requirements set out in Sections 3 and 5 of this Act;

(b) The applicant can demonstrate the ability to operate the school in an educationally and fiscally sound manner; and

(c) Approving the application is likely to improve student learning and achievement and further the purposes set out in Section 1 of this Act.

(7) An application to convert an existing public school to a charter school may only be approved by the local board of education. The local board shall:

(a) Require the application to be approved by a majority vote of local board members;

(b) Require the application to be signed by fifty-one percent (51%) of teachers and parents of students enrolled in the school to be converted; and

(c) Ensure that positions are available in which to place any teacher who does not wish to be employed in a charter school.

(8) (a) Within sixty (60) days of approval of an application by an authorizer, the board of directors of the approved charter school and the authorizer shall execute a legally binding charter contract that sets forth the academic and operational performance expectations and measures by which the charter school will be evaluated.

- (b) The initial charter contract shall be granted for a term of five (5) operating years, with the contract term commencing on the charter school's first day of operation.
- (c) The executed charter contract shall become the final authorization for the charter school. The charter contract shall include:
1. The term of the contract;
 2. The agreements relating to each item required under subsection (2) of Section 5 of this Act, as modified or supplemented during the approval process;
 3. The rights and duties of each party;
 4. The administrative relationship between the authorizer and the charter school;
 5. The process the authorizer will use to provide ongoing oversight, including a process to conduct annual site visits;
 6. The specific commitments of the charter school authorizer relating to its obligations to oversee, monitor the progress of, and supervise the charter school;
 7. The process and criteria the authorizer will use to annually monitor and evaluate the overall academic, operating, and fiscal conditions of the school, including the process the authorizer will use for correcting any deficiencies found in the annual review;
 8. The process for revision or amendment to the terms of the charter contract agreed to by the authorizer and the board of directors of the charter school;
 9. The process the authorizer will use to provide an itemized account of the use of the fees collected under subsection (10) of this section for ongoing oversight of the charter school;

10. The process agreed to by the authorizer and the board of directors of the charter school that identifies how disputes between the authorizer and the board will be handled; and
11. Any conditions set by the authorizer and agreed to by the authorizer and the board of directors of the charter school.
- (d) The charter contract shall be signed by the chair of the governing board of the authorizer and the chair of the board of directors of the charter school. An approved charter application shall not serve as a charter contract for the charter school.
- (e) No charter school may commence operations without a charter contract executed according to the provisions of this section and approved in an open meeting of the governing board of the authorizer.
- (f) 1. The performance provisions within a charter contract shall be based on a performance framework that sets forth the academic and operational performance indicators, measures, and metrics to be used by the authorizer to evaluate each public charter school. The performance framework shall include at a minimum indicators, measures, and metrics for:
- a. Student academic proficiency;
 - b. Student academic growth;
 - c. Achievement gaps in both student proficiency and student growth between student subgroups, including race, gender, socioeconomic status, and areas of exceptionality;
 - d. Attendance;
 - e. Recurrent enrollment from year to year;
 - f. College or career readiness at the end of grade twelve (12);
 - g. Financial performance and sustainability; and

- h. Board performance and stewardship, including compliance with all applicable statutes, administrative regulations, and terms of the charter contract.
2. The performance framework shall allow the inclusion of additional rigorous, valid, and reliable indicators proposed by a public charter school to augment external evaluations of its performance. The proposed indicators shall be consistent with the purposes of Sections 1 to 11 of this Act and shall be negotiated with the authorizer.
3. The performance framework shall require the disaggregation of student performance data by subgroups, including race, gender, socioeconomic status, and areas of exceptionality.
4. The authorizer shall be responsible for collecting, analyzing, and reporting to the commissioner of education all state-required assessment and achievement data for each public charter school it oversees.
- (g) Annual student achievement performance targets shall be set, in adherence with the state accountability system, by each public charter school in conjunction with its authorizer, and those measures shall be designed to help each charter school meet applicable federal, state, and authorizer goals.
- (9) Within five (5) days after entering into a charter, a copy of a charter authorized by a local board or the Public Charter School Commission shall be submitted to the commissioner of education.
- (10) A charter school authorizer may charge an annual administrative fee in an amount not to exceed two percent (2%) of the funds received by a charter school under subsection (2) of Section 14 of this Act. The authorizer shall use the fees exclusively for the purpose of fulfilling authorizing obligations.

(11) A charter school authorizer may provide other services to a charter school and may charge a fair market fee for those services, but shall not require such an arrangement as a condition to issuing the contract authorizing the charter school.

(12) The commissioner of education shall apply for financial assistance through the federal government for the planning, program design, and initial implementation of charter schools in the state within sixty (60) days after the effective date of this Act or at the first available grant application period. Federal grants include but are not limited to the Charter Schools Program administered by the United States Department of Education.

→SECTION 7. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) A charter may be renewed by the authorizer for successive five (5) years terms, although the authorizer may vary the term based on the performance, demonstrated capacities, and particular circumstances of a charter school and may grant renewal with specific conditions for necessary improvements to a charter school. The renewal application shall be submitted to the authorizer by the board of directors of a charter school no later than six (6) months prior to the expiration of the charter unless the authorizer waives the deadline for good cause. A renewal application shall include:

(a) A report of the progress of the school in achieving the educational objectives set forth in the charter contract;

(b) A report of the progress of the charter school in meeting the goals of the academic performance framework in the charter contract;

(c) A detailed financial statement that discloses the cost of administration, instruction, and other spending categories for the school that will allow a comparison of the costs to other schools. The financial statement shall be in

the form prescribed by the commissioner of education;

(d) Copies of each of the annual reports of the school required in subsection (2) of Section 11 of this Act, including the school report cards and the certified financial statements; and

(e) Indicators of parent and student satisfaction.

(2) In making charter renewal decisions, an authorizer shall:

(a) Base decisions on evidence of the performance of the school over the term of the charter contract in accordance with the performance framework set forth in the charter contract;

(b) Ensure that data used in making renewal decisions are available to the school and the public; and

(c) Provide a public report to the school summarizing the evidence basis for the renewal decision.

➔SECTION 8. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) The Kentucky Public Charter School Commission trust fund is established as a separate fund to be administered by the Kentucky Public Charter School Commission established in Section 4 of this Act. The fund may receive contributions, gifts, donations, appropriations, and any other moneys made available for the fund.

(2) The trust fund shall be used to support the operation of the commission, and all amounts included in the fund are appropriated for the purposes set forth in this section.

(3) Notwithstanding KRS 45.229, any moneys remaining in the fund at the close of a fiscal year and any interest earnings of the fund at the close of a fiscal year shall not lapse but shall be carried forward into the succeeding fiscal year to be used to execute the day-to-day responsibilities of authorizing and overseeing public

charter schools.

→SECTION 9. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) Upon the approval of a charter by a charter school authorizer, the applicant shall be permitted to operate a charter school for a term of five (5) years.

(2) The board of directors of the charter school shall:

(a) Petition the Kentucky Retirement Systems board of trustees for participation in the County Employees Retirement System. Notwithstanding KRS 78.510 to 78.852, the Kentucky Retirement Systems board of trustees shall approve the participation of any charter school whose board petitions to participate in the County Employees Retirement System;

(b) Apply for federal tax-exempt status no later than six (6) months following approval of a charter by a charter school authorizer; and

(c) Negotiate and execute a charter contract with the governing body of the authorizer.

(3) A charter school shall have all corporate powers necessary and desirable for carrying out a charter school program in accordance with the provisions of this section and the terms of the charter, including all of the powers of a local board of education, of a local school district, and those powers granted under the provisions of the not-for-profit corporation laws that are made applicable to charter schools.

(4) A charter school shall be deemed an independent and autonomous school, except as otherwise provided in this section. The charter authorizer shall be deemed to be the public agent authorized to supervise the charter school.

(5) The powers granted to a charter school under this section constitute the performance of essential public purposes and governmental purposes of this state. A charter school shall be exempt to the same extent as other schools from

all taxation, fees, assessments, or special ad valorem levies on its earnings and its property. Instruments of conveyance to or from a charter school and any bonds or notes issued by a charter school, together with the income received, shall at all times be exempt from taxation.

(6) A charter school shall not have the power to levy taxes or to acquire property by eminent domain.

(7) The board of directors of the charter school shall have final authority for policy and operational decisions of the school, although the decision-making authority may be delegated to the administrators and staff of the school in accordance with the provisions of the charter.

(8) Notwithstanding any other statute to the contrary, no civil liability shall attach to any charter school authorizer, the commission, or to any of their members or employees, individually or collectively, for any acts or omissions of the charter school. Neither the local school district, the charter school authorizer, the commission, nor the Commonwealth shall be liable for the debts or financial obligations of a charter school or any person or corporate entity who operates a charter school.

(9) By August 31, 2017, and annually thereafter, a charter school authorizer shall submit to the commissioner of education and to the Interim Joint Committee on Education a report to include:

(a) The names of each charter school operating under contract with the authorizer during the previous academic year that closed during or at the end of the academic year;

(b) The names of each charter school operating under contract with the authorizer during the previous academic year that had the contract nonrenewed or revoked;

(c) The names of each charter school operating under contract with the

authorizer during the previous academic year that have not yet begun to operate;

(d) A summary of the academic and financial performance of each charter school operated under contract with the authorizer during the previous academic year; and

(e) The authorizing duties and functions provided by the authorizer during the previous academic year and a detailed account of the use of administrative fees to carry out the duties and functions.

(10) Upon revocation or nonrenewal of a charter, the authorization of the charter school shall be revoked by the authorizer in compliance with the notice and hearing requirements of Section 10 of this Act.

➔SECTION 10. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) (a) A charter school authorizer may revoke or may not renew a charter if the authorizer determines the charter school:

1. Fails to make significant progress on the state accountability and assessment measures adopted by the Kentucky Board of Education under KRS 158.6453, excluding non-tested program reviews, and the academic performance requirements found in the charter school contract;

2. Fails to meet generally accepted accounting standards; or

3. Commits a material and substantial violation of any of the terms, conditions, standards, or procedures required under Sections 1 to 11, 12, 13, 14, 15, and 16 of this Act, or under the charter contract; and

(b) A charter school authorizer shall revoke or shall not renew a contract if the charter school's progress falls within the bottom quartile of schools on the state student performance measures for three (3) consecutive years.

- (2) An authorizer shall develop a process for the revocation and nonrenewal of a charter that:
- (a) Provides the charter holder with a timely notification of the prospect of revocation or nonrenewal of the charter and the reasons for such possible closure;
 - (b) Allows the charter holder sixty (60) days or a length of time agreed upon by the charter holder and the authorizer to prepare a response;
 - (c) Provides the charter holder the opportunity to have a hearing, which shall be recorded, and at which the charter holder may be represented by counsel and may call witnesses on behalf of the charter holder; and
 - (d) Requires a final determination be made within a sixty (60) day period of deliberation and conveyed in writing to the charter holder.
- (3) If a charter authorizer revokes or does not renew a charter, the authorizer shall state in a resolution to its governing board presented in a public meeting the reasons for the revocation or nonrenewal.
- (4) Within thirty (30) days of taking action to nonrenew or revoke a charter, the charter authorizer shall:
- (a) Report the action taken to the commissioner of education; and
 - (b) Provide a copy of a report to the charter school to include a copy of the authorizer's governing board's resolution identifying the action taken and reasons for the decision and assurances as to compliance with all requirements of this section.
- (5) The charter school authorizer may place a charter school on probationary status to allow the implementation of a remedial action plan. The failure of a charter school to comply with the terms and conditions of a remedial action plan may result in revocation of the school's charter.
- (6) Any individual or group may bring a complaint to the board of directors of a

charter school alleging a violation of this section, the charter, or any other provision of law relating to the management or operation of the charter school. If, after presentation of the complaint to the board of directors of a charter school, the individual or group determines that the board has not adequately addressed the complaint, the individual or group may present the complaint to the charter school authorizer, which shall investigate and respond. The charter school authorizer shall have the power and the duty to issue appropriate remedial orders to charter schools under its jurisdiction to effectuate the provisions of this section.

(7) (a) If a charter school closes, the authorizer shall oversee the closing and shall work with the school to ensure timely notification to parents, orderly transition of students and student records to receiving schools, and proper disposition of school funds, property, and assets in accordance with the requirements of paragraph (b) of this subsection.

(b) The assets of the charter school shall be distributed by the authorizer first to satisfy outstanding payroll obligations for employees of the school and then to creditors of the school. If the assets are insufficient to satisfy outstanding obligations, the authorizer shall petition the Circuit Court of the county in which the charter school is located to prioritize the distribution of assets.

(c) Any funds remaining after outstanding obligations are satisfied shall be:

1. Returned to the local board of education, if the authorizer is the local board of education; or
2. Returned to the Department of Education, if the authorizer is an entity other than a local board of education.

➔SECTION 11. A NEW SECTION OF KRS CHAPTER 160 IS CREATED TO READ AS FOLLOWS:

(1) Any authorizer, except for a local school district authorizer, shall provide

appropriate notification to the local school district in which the charter school is located and to schools in the same geographic area as the proposed charter school upon approval of a charter school application.

(2) (a) 1. A charter school authorized by a local board shall submit an annual report to the local board and the commissioner of education; and

2. A charter school authorized by the Kentucky Public Charter School Commission shall submit an annual report to the commission and the commissioner of education.

(b) The report required under paragraph (a) of this subsection shall be issued no later than the first day of August of each year for the preceding school year and shall include but not be limited to the following components:

1. A charter school report card that shall include measures of the comparative academic and fiscal performance of the school. The measures shall include but not be limited to graduation rates, dropout rates, performance of students on state assessments excluding non-tested program reviews, college entry rates, total spending per student, and administrative spending per student;

2. A narrative of the progress made toward the achievement of the goals set forth for charter schools; and

3. An audit of the fiscal accounts of the charter school conducted by a certified public accountant or a public accountant registered with the State Board of Accountancy. The actual expenses of the audit shall be borne by the charter school.

(3) The commissioner of education shall report annually to the Interim Joint Committee on Education:

(a) The number, location, and a brief description of new charter schools established during the preceding year;

- (b) The academic progress of students attending charter schools, as measured against comparable schools, wherever practicable; and
- (c) Any other information regarding charter schools that the commissioner, the Public Charter School Commission, or an authorizer deems necessary.

➔SECTION 12. A NEW SECTION OF KRS CHAPTER 159 IS CREATED TO READ AS FOLLOWS:

- (1) As used in this section, "charter school" has the same meaning as in Section 2 of this Act.
- (2) (a) Students qualified under KRS 158.030, 158.100, or 159.010 relating to school entrance requirements and school compulsory attendance are eligible for admission to a charter school.
 - (b) Enrollment decisions shall be made in a nondiscriminatory manner and shall not be limited based on intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry.
 - (c) A charter school shall enroll an eligible student who submits an application, unless the number of students exceeds the capacity of a program, class, grade level, or building. If capacity is insufficient to enroll all students who wish to attend, students shall be accepted from among applicants by a random selection lottery, except that an enrollment preference shall be provided to students returning to the charter school in the second or any subsequent year of operation, students residing in the school district in which the charter school is located, and siblings of students already enrolled in the charter school.
- (3) (a) A student may withdraw from a charter school at any time and enroll in another school.
 - (b) A student who has been expelled or suspended from a school may be

refused admission into another school until the period of suspension or expulsion has expired, consistent with the requirements of due process.

➔SECTION 13. A NEW SECTION OF KRS CHAPTER 161 IS CREATED TO READ AS FOLLOWS:

(1) As used in this section, "charter school," "local board," and "local school district" have the same meaning as in Section 2 of this Act.

(2) A charter school shall comply with all provisions of this section and Sections 1 to 11, 12, 14, 15, and 16 of this Act.

(3) No local board of education shall require any employee of the local school district to be employed in a charter school or any student enrolled in the school district to attend a charter school. No local board shall harass, threaten, discipline, discharge, retaliate, or in any manner discriminate against any district employee involved directly or indirectly with an application to establish a charter school as authorized under this section.

(4) A local board of education shall not discriminate against a charter school in publicizing the district's educational options through advertising, direct mail, availability of mailing lists, or other informational activities.

(5) A teacher employed by a local school board under a continuing service contract may be granted a one (1) year leave of absence to teach in a charter school authorized by an entity other than the local board if the leave of absence is mutually agreed upon by the local board of education of the school district and the teacher. The leave of absence shall commence on the first day of service to the charter school. Upon the request of the teacher, a one (1) year leave of absence shall be renewed for up to two (2) additional years upon the mutual agreement of the teacher and the school district. At the end of three (3) years, the relationship between the teacher and the school district shall be determined by the school district. The school district shall notify the teacher of the decision.

- (6) (a) 1. Teachers and employees in a charter school shall participate in the Kentucky Teachers' Retirement System or the County Employees Retirement System, as determined by their eligibility for participation in the appropriate system.
2. The charter school shall remit to the appropriate retirement system the employer contributions required by law for participating employers.
3. Teachers and other certified personnel shall make any required employee contributions to the Kentucky Teachers' Retirement System under KRS 161.220 to 161.716.
4. Classified employees shall make any required employee contributions to the County Employees Retirement System under KRS 78.510 to 78.852.
- (b) A person who is employed in a charter school shall accrue service credit for retirement in the same manner as do public school employees.
- (c) A charter school employee shall be provided the health and life insurance and other benefit programs extended to public school employees.
- (d) Any state appropriation for retirement, health, or life insurance benefits made on behalf of a local public school employee shall also be made on behalf of a charter school employee.
- (7) Notwithstanding any other statute to the contrary, certified employees of a charter school shall not be covered under a local school collective bargaining agreement. Certified employees in a charter school may enter into a collective bargaining agreement with a charter school board of directors that is separate from the collective bargaining agreement of the local district.

➔SECTION 14. A NEW SECTION OF KRS CHAPTER 157 IS CREATED TO READ AS FOLLOWS:

(1) As used in this section, "authorizer," "charter school," "charter school

commission," "local board," and "local school district" have the same meaning as in Section 2 of this Act.

(2) (a) A local school board shall allocate directly to a charter school authorized by the local board state and local funds, excluding state funds allocated for capital purposes and revenue from local taxes levied for capital purposes, for each student who is a resident of the school district enrolled in the charter school by using the same formulas and allocation processes as are used to distribute funds to other schools in the school district.

(b) 1. The Department of Education shall distribute state funds, excluding state funds allocated for capital purposes, directly to the charter school commission for each student enrolled in a charter school authorized by the commission by using the same formulas and allocation processes as are used to distribute funds to other schools in a school district. The first distribution of state funds shall be made to the commission on or before the first student instructional day or on August 1 of the year in which a charter school begins operation, whichever comes first.

2. Funds shall be distributed by the commission to a charter school within five (5) days of their receipt.

3. The department shall continue to disburse funds to the commission using the same formulas and allocation processes as are used to distribute funds to local school districts for each student enrolled in a school authorized by the commission for the duration of the contract and for the duration of any subsequent contract renewals.

(c) 1. A local board shall distribute local funds, excluding revenue from local taxes levied for capital purposes and any state funds allocated for capital purposes, directly to the charter school commission for each

student who is a resident of the local district and is enrolled in a charter school authorized by the commission by using the same formulas and allocation processes as are used to allocate local funds to any school in the district.

2. Local funds shall be distributed by the local board to the commission within ten (10) days of receipt.

3. The local board shall continue to disburse funds to the commission for the duration of the contract and for the duration of any subsequent contract renewals using the same formulas and allocation processes as are used to distribute funds to any other school in the local district. The commission or authorizer shall distribute the local funds to the appropriate charter school within five (5) days of receipt.

(3) (a) Notwithstanding subsection (2) of this section, the proportionate share of state and federal resources generated by exceptional children attending a charter school and funds generated under other federal or state categorical aid programs by students attending a charter school or staff serving them shall be:

1. Allocated by a local school district to a charter school authorized by the local district using the same formulas and allocation processes as are used to distribute funds to other schools in the school district; and

2. Distributed by a local school district to the charter school commission using the same formulas and allocation processes as are used to distribute funds to other schools in the school district. The commission shall distribute the funds within five (5) days to the charter schools in which the children are enrolled.

(b) 1. The Department of Education shall distribute funds directly to the charter school commission for a charter school authorized by the

- commission for each student who is enrolled in the charter school in an amount equal to the per-pupil funding based on the average daily attendance and add-on funds that are allotted under the Support Education Excellence in Kentucky program under KRS 157.360, excluding funds allocated for capital purposes, and any other categorical funds that are allocated to schools based on a per-pupil basis or in lump-sum grants.
2. Other state, local, and school district funds shall be distributed to the commission for each student enrolled in the charter school by using the same formulas and allocation processes as are used to distribute funds to any other school in the local school district.
 3. All state and local funding shall be distributed monthly by the department to the commission beginning July 1 of the year in which a charter school begins operation.
 4. Funds shall be distributed to the charter school within five (5) days of receipt.
 5. Funds shall be distributed on or before the first student instructional day.
 6. The department shall continue to disburse funds to the commission and authorizer for each student for the duration of the charter and for the duration of any subsequent charter renewals.
- (4) (a) During any year of the charter school's operation, as funds are received and to the extent allowed by federal law, a local board of education shall distribute federal funds to a charter school authorized by the local board for each student who is a resident of the district enrolled in the charter school on the basis of the number of special characteristics of the students.
- (b) During any year of the charter school's operation, as funds are received and

to the extent allowed by federal law, the charter school commission shall distribute federal funds to a charter school authorized by the commission or authorizer for each student who is enrolled in the charter school on the basis of the number of special characteristics of the students.

(5) A charter school shall be eligible for federal and state competitive grants and shall not be excluded from an opportunity to participate as an independent educational entity as long as the available grants align with the grade levels included in the charter school and the other criteria established for the respective grants.

(6) Private persons and organizations may provide funding and other assistance to the establishment or operation of a charter school.

(7) All awards, grants, or gifts received by a charter school shall be retained by the charter school.

(8) (a) The board of directors of a charter school may accept gifts, donations, or grants of any kind made to the school and expend or use the gifts, donations, or grants in accordance with the conditions prescribed by the donor.

(b) A gift or donation shall not be required for admission to the charter school.

(c) A gift, donation, or grant shall not be accepted by the board of directors if subject to a condition that is contrary to law or contrary to the terms of the contract between the charter school and the authorizer.

(d) All gifts, donations, or grants shall be reported to the charter school authorizer in the charter school's annual audit report.

➔Section 15. KRS 161.220 is amended to read as follows:

As used in KRS 161.220 to 161.716 and 161.990:

(1) "Retirement system" means the arrangement provided for in KRS 161.220 to 161.716 and 161.990 for payment of allowances to members;

- (2) "Retirement allowance" means the amount annually payable during the course of his natural life to a member who has been retired by reason of service;
- (3) "Disability allowance" means the amount annually payable to a member retired by reason of disability;
- (4) "Member" means the commissioner of education, deputy commissioners, associate commissioners, and all division directors in the State Department of Education, employees participating in the system pursuant to KRS 196.167(3)(b)1., and any full-time teacher or professional occupying a position requiring certification or graduation from a four (4) year college or university, as a condition of employment, and who is employed by public boards, institutions, or agencies as follows:
 - (a) Local boards of education;
 - (b) Eastern Kentucky University, Kentucky State University, Morehead State University, Murray State University, Western Kentucky University, and any community colleges established under the control of these universities;
 - (c) State-operated secondary area vocational education or area technology centers, Kentucky School for the Blind, and Kentucky School for the Deaf;
 - (d) The Education Professional Standards Board, other public education agencies as created by the General Assembly, and those members of the administrative staff of the Teachers' Retirement System of the State of Kentucky whom the board of trustees may designate by administrative regulation;
 - (e) Regional cooperative organizations formed by local boards of education or other public educational institutions listed in this subsection, for the purpose of providing educational services to the participating organizations;
 - (f) All full-time members of the staffs of the Kentucky Association of School Administrators, Kentucky Education Association, Kentucky Vocational Association, Kentucky High School Athletic Association, Kentucky Academic Association, and the Kentucky School Boards Association who were members

of the Kentucky Teachers' Retirement System or were qualified for a position covered by the system at the time of employment by the association in the event that the board of directors of the respective association petitions to be included. The board of trustees of the Kentucky Teachers' Retirement System may designate by resolution whether part-time employees of the petitioning association are to be included. The state shall make no contributions on account of these employees, either full-time or part-time. The association shall make the employer's contributions, including any contribution that is specified under KRS 161.550. The provisions of this paragraph shall be applicable to persons in the employ of the associations on or subsequent to July 1, 1972;

- (g) Employees of the Council on Postsecondary Education who were employees of the Department for Adult Education and Literacy and who were members of the Kentucky Teachers' Retirement System at the time the department was transferred to the council pursuant to Executive Order 2003-600;
- (h) The Office of Career and Technical Education, except that the executive director shall not be a member;
- (i) The Office of Vocational Rehabilitation;
- (j) The Kentucky Educational Collaborative for State Agency Children;
- (k) The Governor's Scholars Program;
- (l) Any person who is retired for service from the retirement system and is reemployed by an employer identified in this subsection in a position that the board of trustees deems to be a member;
- (m) Employees of the former Cabinet for Workforce Development who are transferred to the Kentucky Community and Technical College System and who occupy positions covered by the Kentucky Teachers' Retirement System shall remain in the Teachers' Retirement System. New employees occupying these positions, as well as newly created positions qualifying for Teachers'

Retirement System coverage that would have previously been included in the former Cabinet for Workforce Development, shall be members of the Teachers' Retirement System;

- (n) Effective January 1, 1998, employees of state community colleges who are transferred to the Kentucky Community and Technical College System shall continue to participate in federal old age, survivors, disability, and hospital insurance, and a retirement plan other than the Kentucky Teachers' Retirement System offered by Kentucky Community and Technical College System. New employees occupying positions in the Kentucky Community and Technical College System as referenced in KRS 164.5807(5) that would not have previously been included in the former Cabinet for Workforce Development, shall participate in federal old age, survivors, disability, and hospital insurance and have a choice at the time of employment of participating in a retirement plan provided by the Kentucky Community and Technical College System, including participation in the Kentucky Teachers' Retirement System, on the same basis as faculty of the state universities as provided in KRS 161.540 and 161.620;
- (o) Employees of the Office of General Counsel, the Office of Budget and Administrative Services, and the Office of Quality and Human Resources within the Office of the Secretary of the former Cabinet for Workforce Development and the commissioners of the former Department for Adult Education and Literacy and the former Department for Technical Education who were contributing to the Kentucky Teachers' Retirement System as of July 15, 2000;~~and~~
- (p) Employees of the Kentucky Department of Education only who are graduates of a four (4) year college or university, notwithstanding a substitution clause within a job classification, and who are serving in a professional job

classification as defined by the department; and

(g) Qualified teachers as defined in Section 2 of this Act employed by a board of directors of a charter school as defined in Section 2 of this Act.

- (5) "Present teacher" means any teacher who was a teacher on or before July 1, 1940, and became a member of the retirement system created by 1938 (1st Extra. Sess.) Ky. Acts ch. 1, on the date of the inauguration of the system or within one (1) year after that date, and any teacher who was a member of a local teacher retirement system in the public elementary or secondary schools of the state on or before July 1, 1940, and continued to be a member of the system until he, with the membership of the local retirement system, became a member of the state Teachers' Retirement System or who becomes a member under the provisions of KRS 161.470(4);
- (6) "New teacher" means any member not a present teacher;
- (7) "Prior service" means the number of years during which the member was a teacher in Kentucky prior to July 1, 1941, except that not more than thirty (30) years' prior service shall be allowed or credited to any teacher;
- (8) "Subsequent service" means the number of years during which the teacher is a member of the Teachers' Retirement System after July 1, 1941;
- (9) "Final average salary" means the average of the five (5) highest annual salaries which the member has received for service in a covered position and on which the member has made contributions, or on which the public board, institution, or agency has picked-up member contributions pursuant to KRS 161.540(2), or the average of the five (5) years of highest salaries as defined in KRS 61.680(2)(a), which shall include picked-up member contributions. Additionally, the board of trustees may approve a final average salary based upon the average of the three (3) highest salaries for members who are at least fifty-five (55) years of age and have a minimum of twenty-seven (27) years of Kentucky service credit. However, if any of the five (5) or three (3) highest annual salaries used to calculate the final average

salary was paid within the three (3) years immediately prior to the date of the member's retirement, the amount of salary to be included for each of those three (3) years for the purpose of calculating the final average salary shall be limited to the lesser of:

- (a) The member's actual salary; or
- (b) The member's annual salary that was used for retirement purposes during each of the prior three (3) years, plus a percentage increase equal to the percentage increase received by all other members employed by the public board, institution, or agency, or for members of school districts, the highest percentage increase received by members on any one (1) rank and step of the salary schedule of the school district. The increase shall be computed on the salary that was used for retirement purposes.

This limitation shall not apply if the member receives an increase in salary in a percentage exceeding that received by the other members, and this increase was accompanied by a corresponding change in position or in length of employment. This limitation shall also not apply to the payment to a member for accrued annual leave if the individual becomes a member before July 1, 2008, or accrued sick leave which is authorized by statute and which shall be included as part of a retiring member's annual compensation for the member's last year of active service;

- (10) "Annual compensation" means the total salary received by a member as compensation for all services performed in employment covered by the retirement system during a fiscal year. Annual compensation shall not include payment for any benefit or salary adjustments made by the public board, institution, or agency to the member or on behalf of the member which is not available as a benefit or salary adjustment to other members employed by that public board, institution, or agency. Annual compensation shall not include the salary supplement received by a member under KRS 157.197(2)(c), 158.6455, or 158.782 on or after July 1, 1996. Under no

circumstances shall annual compensation include compensation that is earned by a member while on assignment to an organization or agency that is not a public board, institution, or agency listed in subsection (4) of this section. In the event that federal law requires that a member continue membership in the retirement system even though the member is on assignment to an organization or agency that is not a public board, institution, or agency listed in subsection (4) of this section, the member's annual compensation for retirement purposes shall be deemed to be the annual compensation, as limited by subsection (9) of this section, last earned by the member while still employed solely by and providing services directly to a public board, institution, or agency listed in subsection (4) of this section. The board of trustees shall determine if any benefit or salary adjustment qualifies as annual compensation. For an individual who becomes a member on or after July 1, 2008, annual compensation shall not include lump-sum payments upon termination of employment for accumulated annual or compensatory leave;

- (11) "Age of member" means the age attained on the first day of the month immediately following the birthdate of the member. This definition is limited to retirement eligibility and does not apply to tenure of members;
- (12) "Employ," and derivatives thereof, means relationships under which an individual provides services to an employer as an employee, as an independent contractor, as an employee of a third party, or under any other arrangement as long as the services provided to the employer are provided in a position that would otherwise be covered by the Kentucky Teachers' Retirement System and as long as the services are being provided to a public board, institution, or agency listed in subsection (4) of this section;
- (13) "Regular interest" means interest at three percent (3%) per annum, except for an individual who becomes a member on or after July 1, 2008, "regular interest" means interest at two and one-half percent (2.5%) per annum for purposes of crediting

- interest to the teacher savings account or any other contributions made by the employee that are refundable to the employee upon termination of employment;
- (14) "Accumulated contributions" means the contributions of a member to the teachers' savings fund, including picked-up member contributions as described in KRS 161.540(2), plus accrued regular interest;
- (15) "Annuitant" means a person who receives a retirement allowance or a disability allowance;
- (16) "Local retirement system" means any teacher retirement or annuity system created in any public school district in Kentucky in accordance with the laws of Kentucky;
- (17) "Fiscal year" means the twelve (12) month period from July 1 to June 30. The retirement plan year is concurrent with this fiscal year. A contract for a member employed by a local board of education may not exceed two hundred sixty-one (261) days in the fiscal year;
- (18) "Public schools" means the schools and other institutions mentioned in subsection (4) of this section;
- (19) "Dependent" as used in KRS 161.520 and 161.525 means a person who was receiving, at the time of death of the member, at least one-half (1/2) of the support from the member for maintenance, including board, lodging, medical care, and related costs;
- (20) "Active contributing member" means a member currently making contributions to the Teachers' Retirement System, who made contributions in the next preceding fiscal year, for whom picked-up member contributions are currently being made, or for whom these contributions were made in the next preceding fiscal year;
- (21) "Full-time" means employment in a position that requires services on a continuing basis equal to at least seven-tenths (7/10) of normal full-time service on a fiscal year basis;
- (22) "Full actuarial cost," when used to determine the payment that a member must pay

for service credit means the actuarial value of all costs associated with the enhancement of a member's benefits or eligibility for benefit enhancements, including health insurance supplement payments made by the retirement system. The actuary for the retirement system shall determine the full actuarial value costs and actuarial cost factor tables as provided in KRS 161.400;

- (23) "Last annual compensation" means the annual compensation, as defined by subsection (10) of this section and as limited by subsection (9) of this section, earned by the member during the most recent period of contributing service, either consecutive or nonconsecutive, that is sufficient to provide the member with one (1) full year of service credit in the Kentucky Teachers' Retirement System, and which compensation is used in calculating the member's initial retirement allowance, excluding bonuses, retirement incentives, payments for accumulated sick, annual, personal and compensatory leave, and any other lump-sum payment. For an individual who becomes a member on or after July 1, 2008, payments for annual or compensatory leave shall not be included in determining the member's last annual compensation;
- (24) "Participant" means a member, as defined by subsection (4) of this section, or an annuitant, as defined by subsection (15) of this section;
- (25) "Qualified domestic relations order" means any judgment, decree, or order, including approval of a property settlement agreement, that:
- (a) Is issued by a court or administrative agency; and
 - (b) Relates to the provision of child support, alimony payments, or marital property rights to an alternate payee; and
- (26) "Alternate payee" means a spouse, former spouse, child, or other dependent of a participant, who is designated to be paid retirement benefits in a qualified domestic relations order.

➔Section 16. KRS 78.510 is amended to read as follows:

As used in KRS 78.510 to 78.852, unless the context otherwise requires:

- (1) "System" means the County Employees Retirement System;
- (2) "Board" means the board of trustees of the system as provided in KRS 78.780;
- (3) "County" means any county, or nonprofit organization created and governed by a county, counties, or elected county officers, sheriff and his employees, county clerk and his employees, circuit clerk and his deputies, former circuit clerks or former circuit clerk deputies, or political subdivision or instrumentality, including school boards, charter schools, charter county government, or urban-county government participating in the system by order appropriate to its governmental structure, as provided in KRS 78.530, and if the board is willing to accept the agency, organization, or corporation, the board being hereby granted the authority to determine the eligibility of the agency to participate;
- (4) "School board" means any board of education participating in the system by order appropriate to its governmental structure, as provided in KRS 78.530, and if the board is willing to accept the agency or corporation, the board being hereby granted the authority to determine the eligibility of the agency to participate;
- (5) "Examiner" means the medical examiners as provided in KRS 61.665;
- (6) "Employee" means every regular full-time appointed or elective officer or employee of a participating county and the coroner of a participating county, whether or not he qualifies as a regular full-time officer. The term shall not include persons engaged as independent contractors, seasonal, emergency, temporary, and part-time workers. In case of any doubt, the board shall determine if a person is an employee within the meaning of KRS 78.510 to 78.852;
- (7) "Employer" means a county, as defined in subsection (3) of this section, the elected officials of a county, or any authority of the county having the power to appoint or elect an employee to office or employment in the county;
- (8) "Member" means any employee who is included in the membership of the system or

- any former employee whose membership has not been terminated under KRS 61.535;
- (9) "Service" means the total of current service and prior service as defined in this section;
- (10) "Current service" means the number of years and months of employment as an employee, on and after July 1, 1958, for which creditable compensation is paid and employee contributions deducted, except as otherwise provided;
- (11) "Prior service" means the number of years and completed months, expressed as a fraction of a year, of employment as an employee, prior to July 1, 1958, for which creditable compensation was paid. An employee shall be credited with one (1) month of prior service only in those months he received compensation for at least one hundred (100) hours of work. Twelve (12) months of current service in the system shall be required to validate prior service;
- (12) "Accumulated contributions" means the sum of all amounts deducted from the compensation of a member and credited to his individual account in the members' account, including employee contributions picked up after August 1, 1982, pursuant to KRS 78.610(4), together with interest credited on the amounts, and any other amounts the member shall have contributed thereto, including interest credited thereon. For members who begin participating on or after September 1, 2008, "accumulated contributions" shall not include employee contributions that are deposited into accounts established pursuant to 26 U.S.C. sec. 401(h) within the funds established in KRS 16.510, 61.515, and 78.520, as prescribed by KRS 61.702(2)(b);
- (13) "Creditable compensation" means all salary, wages, and fees, including payments for compensatory time, paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave, which are includable on the member's federal form W-2 wage and tax statement under the

heading "wages, tips, other compensation", including employee contributions picked up after August 1, 1982, pursuant to KRS 78.610(4). A lump-sum bonus, severance pay, or employer-provided payment for purchase of service credit shall be included as creditable compensation but shall be averaged over the employee's service with the system in which it is recorded if it is equal to or greater than one thousand dollars (\$1,000). If compensation includes maintenance and other perquisites, the board shall fix the value of that part of the compensation not paid in money. Living allowances, expense reimbursements, lump-sum payments for accrued vacation leave, sick leave except as provided in KRS 78.616(5), and other items determined by the board shall be excluded. Creditable compensation shall also include amounts that are not includable in the member's gross income by virtue of the member having taken a voluntary salary reduction provided for under applicable provisions of the Internal Revenue Code. Creditable compensation shall also include elective amounts for qualified transportation fringes paid or made available on or after January 1, 2001, for calendar years on or after January 1, 2001, that are not includable in the gross income of the employee by reason of 26 U.S.C. sec. 132(f)(4). For employees who begin participating on or after September 1, 2008, creditable compensation shall not include payments for compensatory time. Creditable compensation shall not include training incentive payments for city officers paid as set out in KRS 64.5277 to 64.5279;

(14) "Final compensation" means:

- (a) For a member who begins participating before September 1, 2008, who is not employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the five (5) fiscal years he was paid at the highest average monthly rate divided by the number of months of service credit during that five (5) year period multiplied by twelve (12). The five (5) years may be fractional and need not be consecutive. If the number of months

- of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used;
- (b) For a member who is not employed in a hazardous position, as provided in KRS 61.592, whose effective retirement date is between August 1, 2001, and January 1, 2009, and whose total service credit is at least twenty-seven (27) years and whose age and years of service total at least seventy-five (75), final compensation means the creditable compensation of the member during the three (3) fiscal years the member was paid at the highest average monthly rate divided by the number of months of service credit during that three (3) year period multiplied by twelve (12). The three (3) years may be fractional and need not be consecutive. If the number of months of service credit during the three (3) year period is less than twenty-four (24), one (1) or more additional fiscal years shall be used. Notwithstanding the provision of KRS 61.565, the funding for this paragraph shall be provided from existing funds of the retirement allowance;
- (c) For a member who begins participating before September 1, 2008, who is employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the three (3) fiscal years he was paid at the highest average monthly rate divided by the number of months of service credit during that three (3) year period multiplied by twelve (12). The three (3) years may be fractional and need not be consecutive. If the number of months of service credit during the three (3) year period is less than twenty-four (24), one (1) or more additional fiscal years shall be used;
- (d) For a member who begins participating on or after September 1, 2008, but prior to January 1, 2014, who is not employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the five (5) complete fiscal years immediately preceding retirement divided by

- five (5). Each fiscal year used to determine final compensation must contain twelve (12) months of service credit. If the member does not have five (5) complete fiscal years that each contain twelve (12) months of service credit, then one (1) or more additional fiscal years shall be used; or
- (e) For a member who begins participating on or after September 1, 2008, but prior to January 1, 2014, who is employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the three (3) complete fiscal years he was paid at the highest average monthly rate divided by three (3). Each fiscal year used to determine final compensation must contain twelve (12) months of service credit;
- (15) "Final rate of pay" means the actual rate upon which earnings of an employee were calculated during the twelve (12) month period immediately preceding the member's effective retirement date, and shall include employee contributions picked up after August 1, 1982, pursuant to KRS 78.610(4). The rate shall be certified to the system by the employer and the following equivalents shall be used to convert the rate to an annual rate: two thousand eighty (2,080) hours for eight (8) hour workdays, one thousand nine hundred fifty (1,950) hours for seven and one-half (7.5) hour workdays, two hundred sixty (260) days, fifty-two (52) weeks, twelve (12) months, one (1) year;
- (16) "Retirement allowance" means the retirement payments to which a member is entitled;
- (17) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of the actuarial tables adopted by the board. In cases of disability retirement, the options authorized by KRS 61.635 shall be computed by adding ten (10) years to the age of the member, unless the member has chosen the Social Security adjustment option as provided for in KRS 61.635(8), in which case the member's actual age shall be used. For members who begin participating in the system prior to

January 1, 2014, no disability retirement option shall be less than the same option computed under early retirement;

- (18) "Normal retirement date" means the sixty-fifth birthday of a member unless otherwise provided in KRS 78.510 to 78.852;
- (19) "Fiscal year" of the system means the twelve (12) months from July 1 through the following June 30, which shall also be the plan year. The "fiscal year" shall be the limitation year used to determine contribution and benefits limits as set out in 26 U.S.C. sec. 415;
- (20) "Agency reporting official" means the person designated by the participating agency who shall be responsible for forwarding all employer and employee contributions and a record of the contributions to the system and for performing other administrative duties pursuant to the provisions of KRS 78.510 to 78.852;
- (21) "Regular full-time positions," as used in subsection (6) of this section, shall mean all positions that average one hundred (100) or more hours per month, determined by using the number of hours actually worked in a calendar or fiscal year, or eighty (80) or more hours per month in the case of noncertified employees of school boards or charter schools, determined by using the number of hours actually worked in a calendar or school year, unless otherwise specified, except:
- (a) Seasonal positions, which although temporary in duration, are positions which coincide in duration with a particular season or seasons of the year and that may recur regularly from year to year, in which case the period of time shall not exceed nine (9) months, except for employees of school boards, in which case the period of time shall not exceed six (6) months;
- (b) Emergency positions that are positions that do not exceed thirty (30) working days and are nonrenewable;
- (c) Temporary, also referred to as probationary, positions that are positions of employment with a participating agency for a period of time not to exceed

twelve (12) months and not renewable; or

- (d) Part-time positions that are positions that may be permanent in duration, but that require less than a calendar or fiscal year average of one hundred (100) hours of work per month, determined by using the number of months actually worked within a calendar or fiscal year, in the performance of duty, except in case of noncertified employees of school boards, the school term average shall be eighty (80) hours of work per month, determined by using the number of months actually worked in a calendar or school year, in the performance of duty;
- (22) "Alternate participation plan" means a method of participation in the system as provided for by KRS 78.530(3);
- (23) "Retired member" means any former member receiving a retirement allowance or any former member who has on file at the retirement office the necessary documents for retirement benefits and is no longer contributing to the system;
- (24) "Current rate of pay" means the member's actual hourly, daily, weekly, biweekly, monthly, or yearly rate of pay converted to an annual rate as defined in final rate of pay. The rate shall be certified by the employer;
- (25) "Beneficiary" means the person, persons, estate, trust, or trustee designated by the member in accordance with KRS 61.542 or 61.705 to receive any available benefits in the event of the member's death. As used in KRS 61.702, beneficiary shall not mean an estate, trust, or trustee;
- (26) "Recipient" means the retired member, the person or persons designated as beneficiary by the member and drawing a retirement allowance as a result of the member's death, or a dependent child drawing a retirement allowance. An alternate payee of a qualified domestic relations order shall not be considered a recipient, except for purposes of KRS 61.623;
- (27) "Person" means a natural person;

- (28) "School term or year" means the twelve (12) months from July 1 through the following June 30;
- (29) "Retirement office" means the Kentucky Retirement Systems office building in Frankfort;
- (30) "Delayed contribution payment" means an amount paid by an employee for current service obtained under KRS 61.552. The amount shall be determined using the same formula in KRS 61.5525, except the determination of the actuarial cost for classified employees of a school board shall be based on their final compensation, and the payment shall not be picked up by the employer. A delayed contribution payment shall be deposited to the member's account and considered as accumulated contributions of the individual member. In determining payments under this subsection, the formula found in this subsection shall prevail over the one found in KRS 212.434;
- (31) "Participating" means an employee is currently earning service credit in the system as provided in KRS 78.615;
- (32) "Month" means a calendar month;
- (33) "Membership date" means the date upon which the member began participating in the system as provided in KRS 78.615;
- (34) "Participant" means a member, as defined by subsection (8) of this section, or a retired member, as defined by subsection (23) of this section;
- (35) "Qualified domestic relations order" means any judgment, decree, or order, including approval of a property settlement agreement, that:
- (a) Is issued by a court or administrative agency; and
 - (b) Relates to the provision of child support, alimony payments, or marital property rights to an alternate payee;
- (36) "Alternate payee" means a spouse, former spouse, child, or other dependent of a participant, who is designated to be paid retirement benefits in a qualified domestic

relations order;

(37) "Accumulated employer credit" means the employer pay credit deposited to the member's account and interest credited on such amounts as provided by KRS 16.583 and 61.597; and

(38) "Accumulated account balance" means:

- (a) For members who began participating in the system prior to January 1, 2014, the member's accumulated contributions; or
- (b) For members who began participating in the system on or after January 1, 2014, in the hybrid cash balance plan as provided by KRS 16.583 and 61.597, the combined sum of the member's accumulated contributions and the member's accumulated employer credit.