

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1420-04  
Bill No.: SCS for SB 287  
Subject: Education, Elementary and Secondary: Elementary and Secondary Education Dept  
Type: Original  
Date: April 11, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue*	\$0	(\$132,920,000)	(\$265,840,000)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0</b>	<b>(\$132,920,000)</b>	<b>(\$265,840,000)</b>

\* The proposal reflects a five-year phase-in of the new formula of a total of \$664.6 million. FY 09 cost is estimated at \$398.8 million; FY 10 cost is \$531.7 million; FY 11 cost is \$664.6 million. Because of hold harmless provisions and built in provisions to adjust some of the factors, the cost may vary year by year during the phase-in and the cumulative cost after five years may exceed \$664.6 million.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Classroom Trust Fund*	\$0	\$0	\$0
Gaming Proceeds for Education Fund*	\$0	\$0	\$0
State School Moneys Fund*	\$0	\$0	\$0
<b>Total Estimated Net Effect on Other State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Transfers In and Out total \$270,514,200 in FY 07 and \$275,924,484 in FY 08  
 Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Health and Senior Services (DOHSS)** state this proposed legislation would not be expected to fiscally impact the operations of DOHSS. If an impact were to result, funds to support the program would be sought through the appropriations process.

Officials from the **Office of State Courts Administrator** assume there will be no fiscal impact on the Courts.

Officials from the **Office of Secretary of State - Business Services Division, Office of Administration - Division of Budget and Planning, State Tax Commission, Department of Mental Health, Office of State Treasurer, Department of Insurance, and Department of Revenue** do not anticipate a fiscal impact to their respective agencies.

Officials from the **Department of Public Safety - Office of the Director** and the **Missouri Gaming Commission** state this proposal will have no fiscal impact on their agencies.

Officials from the **Department of Social Services** state that the proposal does not appear to treat the Division of Youth Services substantially differently than current law; however, the outcome of applying the new formula cannot be determined without further analysis.

Officials from the **Office of Secretary of State (SOS)** assumed the rules, regulations and forms issued by the Department of Elementary and Secondary Education could require as many as 12 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are

ASSUMPTION (continued)

published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$738 for FY 2006. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from **Central Missouri State University** and the **University of Missouri System** state this proposal will have no fiscal impact on their institution.

According to officials from the **Department of Elementary and Secondary Education**, SCS for SB 287 reflects the language for a new school funding formula reviewed by the Joint Committee on Education. Based on data available at the time of the simulation, the estimated state cost of the new public school funding formula if fully implemented immediately (no phase-in) is approximately \$664.6 million. The proposal reflects a four-year phase-in of the new formula, but this does not mean that the estimated \$664.6 million can be divided by four to get the annual cost for four years. Because of hold harmless provisions and built in provisions to adjust some of the factors, the cost will vary year by year during the phase-in and the cumulative cost after four years may exceed \$664.6 million. **Oversight** assumes, based on the legislation, there is a five-year phase-in period.

Officials from the **Special School District of Saint Louis County** assume a future reduction in average daily attendance for technical education students could reduce their future state funding.

Officials from the **Office of Attorney General** assume costs attributed to current litigation regarding the school foundation formula could exceed \$100,000. **Oversight** assumes only revenue and costs directly related to the proposed legislation will be shown on the fiscal note.

Sections 160.534 & 163.043

**Oversight** assumes, based on information from Office of Administration - Division of Budget and Planning, that transfers in and out of State School Moneys Fund, Gaming Proceeds for Education Fund, and Classroom Trust Fund will total \$270,514,200 in FY 07 and \$275,514,200.

ASSUMPTION (continued)

This is assuming a two percent growth per year and the maximum amount of \$7 million taken out for School District Bond Fund.

Charter school sponsors from **University of Missouri (Kansas City and Rolla), Southeast Missouri State University, Harris-Stowe, and Saint Louis Public Schools** did not respond to a request for fiscal note.

<u>FISCAL IMPACT - State</u>	FY 2006	FY 2007	FY 2008
<u>Government</u>			

**GENERAL REVENUE**

<u>Cost</u> - Department of Elementary and Secondary Education - School Funding*	\$0	(\$132,920,000)	(\$265,840,000)
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**ESTIMATED NET EFFECT ON GENERAL REVENUE\***

	<u>\$0</u>	<u>(\$132,920,000)</u>	<u>(\$265,840,000)</u>
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\* The proposal reflects a five-year phase-in of the new formula of a total of \$664.6 million. FY 09 cost is estimated at \$398.8 million; FY 10 cost is \$531.7 million; FY 11 cost is \$664.6 million. Because of hold harmless provisions and built in provisions to adjust some of the factors, the cost may vary year by year during the phase-in and the cumulative cost after five years may exceed \$664.6 million.

**GAMING PROCEEDS FOR EDUCATION FUND**

<u>Savings</u> - Decreased Transfers to State School Moneys Fund	\$0	\$270,514,200	\$275,924,484
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<u>Cost</u> - Transfer to Classroom Trust Fund	\$0	(\$270,514,200)	(\$275,924,484)
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**ESTIMATED NET EFFECT ON GAMING PROCEEDS FOR EDUCATION FUND**

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### DESCRIPTION

Currently, the state's education formula is essentially an equalized tax-rate driven formula, meaning that the formula provides a certain amount of money per student, per penny of tax rate. This proposed legislation seeks to transition the state away from this tax-rate driven philosophy to a formula that is primarily student-needs based.

The formula requires the Department of Elementary and Secondary Education (DESE) to calculate a state adequacy target. The adequacy target amount is the minimum amount of funds a district will receive in order to educate each student. In order to calculate the target, DESE will identify certain high performing districts (performance districts) and extrapolate the amount that those districts spent on educating their students. This amount will become the new state minimum per student, or the state adequacy target. The state adequacy target will be recalculated by DESE every two years using the most current list of performance districts. This number will not decrease due to any such recalculation.

The formula assigns additional weight to districts' student counts based on certain student characteristics, specifically, to students who qualify for free and reduced lunch, receive special education services, or possess limited English language proficiency. DESE will identify the aggregate percentage of the performance districts' free and reduced price lunch, special education, and limited English language proficiency populations in order to create threshold percentage amounts. Any district with student populations above the threshold percentages in any of the weighted characteristic areas will be assigned additional "weight" for the number of the district's students above the threshold amounts. These additional weights will be added to the district's student population in order to arrive at that district's weighted average daily attendance.

A district's state aid calculation will be: The district's weighted average daily attendance multiplied by the state adequacy target. This figure may be adjusted upward by the dollar value modifier, which is an index corresponding to the actual buying power of a dollar, derived from county wage-per-job data. From this total, the district's local effort will be subtracted, and if this number is above zero, this number is the district's state aid payment. If the number is below zero, then the district will receive no less revenue on a per weighted daily attendance basis than the district received last year. However, the "hold harmless" calculation is adjusted to reflect usage of weighed average daily attendance and the dollar value modifier. The formula is phased in over a five-year period, during which time the state adequacy target may not be adjusted downward.

DESCRIPTION (continued)

The local revenue figure utilized in a district's state aid calculation is the amount of locally generated revenue the district would have received in fiscal year 2005 if its operating levy was set at \$3.35. The \$3.35 amount is the performance levy, which is extrapolated from data regarding the median operating levy of each performance district. In every year subsequent to the first-year calculation, a district's "local effort" amount will be frozen, so that any growth in local revenue collections will be retained by the district and not used to offset state aid payments.

The proposal renders an additional multitude of alterations to current law, including, but not limited to establishing the Classroom Trust Fund and option districts and altering minimum salary provisions and fund transfer regulations.

The provisions of this act will become effective July 1, 2006.

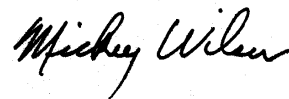
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education  
Office of State Treasurer  
Office of Secretary of State  
    Administrative Rules Division  
    Business Services Division  
Office of State Courts Administrator  
Office of Administration  
    Division of Budget and Planning  
Department of Public Safety  
    Office of Director  
    Missouri Gaming Commission  
Department of Mental Health  
Department of Health and Senior Services  
Department of Insurance  
Missouri Tax Commission  
Department of Revenue  
Department of Social Services  
Office of Attorney General  
Charter School Sponsors  
    Central Missouri State University  
    University of Missouri System

NOT RESPONDING

**Charter School Sponsors**  
    **Saint Louis Public School District**  
    **Harris-Stowe**  
    **Southeast Missouri State University**



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