

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1420-05  
Bill No.: Perfected SS for SCS for SB 287  
Subject: Education, Elementary and Secondary: Elementary and Secondary Education Dept  
Type: Original  
Date: April 13, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue*	(Less than \$100,000)	(\$137,800,000)	(\$275,600,000)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(Less than \$100,000)</b>	<b>(\$137,800,000)</b>	<b>(\$275,600,000)</b>
<p>* The proposal reflects a five-year phase-in of the new formula of a total of \$689 million. FY 09 cost is estimated at \$413.4 million; FY 10 cost is \$551.2 million; FY 11 cost is \$689 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 \$689 million.</p>			
<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Classroom Trust Fund*	\$0	\$0	\$0
Small School District Success 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 \$280,514,200 in FY 07 and \$285,924,484 in FY 08

<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>Up to \$10,000,000</b>	<b>Up to \$10,000,000</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

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 State Treasurer, Office of Administration - Division of Budget and Planning, Department of Public Safety - Office of Director, Department of Public Safety - Missouri Gaming Commission; Department of Insurance, State Tax Commission, Department of Mental Health, and Department of Revenue** do not anticipate a fiscal impact to their respective 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 15 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are 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 \$888 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.

ASSUMPTION (continued)

**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 institutions.

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. **Oversight** obtained information showing a new simulation with an amount of \$688,983,409. For fiscal note purposes, Oversight will use the amount of \$689 million.

In response to the Senate Committee Substitute, 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.

Charter Schools

*Sections 160.400; 160.405; 160.415; 160.420*

Officials from the **Office of Administration - Administrative Hearing Commission, Department of Public Safety - Missouri State Highway Patrol, Public School Retirement System of the City of Saint Louis**, and the **Public School Retirement System** state this proposal will have no fiscal impact on their respective agencies.

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 18 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the

ASSUMPTION (continued)

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 \$1,107 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 the **Joint Committee on Public Employee Retirement** assume this proposal would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660 (5); therefore, an actuarial cost statement is not required.

Officials from the **Coordinating Board for Higher Education** state this proposal will have no fiscal impact on their agency; however it may have a fiscal impact on higher education institutions that currently sponsor charter schools or those that choose to do so in the future due to broadening the scope of possible sponsors.

Officials from **Central Missouri State University** stated this proposal would have no fiscal impact on their institution.

Officials from the **University of Missouri System** were unable to determine costs of the proposal to the University of Missouri System as currently written.

Officials from **Harris-Stowe State College** estimated expenses relating to sponsorship of a charter school at \$75,000 to \$90,000 per year. **Oversight** assumes this amount is included in the total allocated per Section 160.415, RSMo.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume state funding to the charter schools does not change as a result of this proposal, just who sends the money to the charter. The state would be capturing both the local and state piece from the district calculation and sending it to the charter. DESE will experience internal costs to revise various data collection instruments and payment programs to treat charter schools as local education authorities (LEAs). Costs may approach \$100,000 to change all the necessary computer programs.

At the present time, in addition to the two school districts currently allowed to have charter schools in operation, both McDonald Co. R-I and Normandy would meet these criteria. There

ASSUMPTION (continued)

are currently 105 school districts with enrollment of 2,000 or more. DESE cannot determine exactly how many schools will become provisionally accredited, nor can DESE determine the extent to which charter schools will be permitted in those provisionally accredited districts; however, DESE foresees the need for 2.0 FTE supervisors and 1.0 administrative assistant to administer the proposal and mitigate the increased demand for technical assistance.

**Oversight** assumes the amount of provisionally accredited districts will not increase to the extent that additional personnel would be needed by DESE. If a substantial number of school districts were to become provisionally accredited, personnel and expenses could be requested through the appropriations process.

Officials from the **Kansas City and St Louis Public School Districts** did not respond to a request for 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. This is assuming a two percent growth per year and the maximum amount of \$7 million taken out for School District Bond Fund.

SECTION 165.121

Officials from the **Office of State Auditor (SAO)** assume this proposal is not a mandate to do any specific audits, and as a result, there would be no fiscal impact. The SAO would only audit school districts which their available financial resources would allow.

SECTION 1 - Property Tax Assessment Practices

Officials from the **House of Representatives** stated this proposal would have no fiscal impact on their agency.

Officials from the **Missouri Senate** assume that any costs could be absorbed by current appropriations.

FISCAL IMPACT - State Government                      FY 2006                      FY 2007                      FY 2008

**GENERAL REVENUE**

Cost - Department of Elementary and Secondary Education - Reprogramming costs (Section 160.415)                      (Less than \$100,000)                      \$0                      \$0

Cost - Department of Elementary and Secondary Education - School Funding\*                      \$0                      (\$137,800,000)                      (\$275,600,000)

**ESTIMATED NET EFFECT ON GENERAL REVENUE\***

(Less than \$100,000)                      (\$137,800,000)                      (\$275,600,000)

\* The proposal reflects a five-year phase-in of the new formula of a total of \$689 million. FY 09 cost is estimated at \$413.4 million; FY 10 cost is \$551.2 million; FY 11 cost is \$689 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 \$689 million.

**GAMING PROCEEDS FOR EDUCATION FUND**

Savings - Decreased Transfers to State School Moneys Fund                      \$0                      \$270,514,200                      \$275,924,484

Cost - Transfer to Classroom Trust Fund                      \$0                      (\$270,514,200)                      (\$275,924,484)

**ESTIMATED NET EFFECT ON GAMING PROCEEDS FOR EDUCATION FUND**

\$0                      \$0                      \$0

FISCAL IMPACT - State Government                      FY 2006                      FY 2007                      FY 2008

**STATE SCHOOL MONEYS FUND**

Savings - Decreased Distributions to School Districts \$0 \$270,514,200 \$275,924,484

Loss - Decreased transfers from Gaming Proceeds for Education Fund \$0 (\$270,514,200) (\$275,924,484)

**ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND** **\$0** **\$0** **\$0**

**CLASSROOM TRUST FUND**

Transfer In - Gambling Boat Proceeds (Section 160.534) \$0 \$270,514,200 \$275,924,484

Transfer Out - Distribution to School Districts (Section 163.043) \$0 (\$270,514,200) (\$275,924,484)

**ESTIMATED NET EFFECT ON CLASSROOM TRUST FUND** **\$0** **\$0** **\$0**

**SMALL SCHOOL DISTRICT SUCCESS FUND**

Transfer In - General Revenue for grants \$0 Up to \$10,000,000 Up to \$10,000,000

Transfer Out - Grants to local school Districts \$0 (Up to \$10,000,000) (Up to \$10,000,000)

**ESTIMATED NET EFFECT ON SMALL SCHOOL DISTRICT SUCCESS FUND** **\$0** **\$0** **\$0**

FISCAL IMPACT - Local Government FY 2006 FY 2007 FY 2008

**LOCAL SCHOOL DISTRICTS**

<u>Income</u> - Proceeds from Classroom Trust Fund	\$0	\$270,514,200	\$275,924,484
<u>Income</u> - Grants from Small School District Success Fund*	\$0	Up to \$10,000,000	Up to \$10,000,000
<u>Loss</u> - Reduced Distributions from State School Moneys Fund	\$0	<u>(\$270,514,200)</u>	<u>(\$275,924,484)</u>
<b>ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS</b>	<b><u>\$0</u></b>	<b><u>Up to \$10,000,000</u></b>	<b><u>Up to \$10,000,000</u></b>

**\*Subject to appropriation**

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



DESCRIPTION (continued)

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. During the phase-in period, districts with significant decreases in gifted and summer school programs will have funds corresponding to those decreased levels reduced from their current year payments.

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, except for any growth in locally-collected fines, 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:

CHARTER SCHOOLS

SECTION 160.400

Current law states that charter schools are independent, publically supported schools. This proposal alters the aforementioned statement to read that charter schools are independent, public schools.

The proposal caps expenses associated with sponsorship of a charter School to one and one-half percent.

DESCRIPTION (continued)

Prior to granting or renewing a charter, sponsors must complete criminal background checks on all members of the governing board applying to establish a charter school. No member of a charter school board may be employed by the charter school nor have substantial interest in any entity employed by or contracting with the board.

The proposal requires timely submission of data required by the State Board of Education.

SECTION 160.405

This section revises the procedure and time line for chartering a school. A charter school proponent shall provide the local school district and the State Board of Education with copies of the charter school application within five days of submitting the application to the proposed sponsor. The sponsor's decision of approval or denial must be made within 90 days of filing the proposed charter (rather than the current 60); if the charter is denied, written notice must be served on the State Board of Education within five days. The State Board has 45 days to deny or grant a proposed charter and shall provide reasons for denial in writing.

Charter schools are required to publish audits and financial reports. Charter schools may publish audit reports and annual financial reports via the internet on the secretary of state's website in lieu of other publishing requirements. A charter may be revoked for failure to provide necessary compliance information, or the sponsor may require specified remedial action of the school.

SECTION 160.410

Charter schools must make available the charter, the results of background checks, and the public report card to the parent of guardian of any eligible pupil seeking to enroll at the school. Reasonable fees may be charged for such copies.

SECTION 160.415

This section includes provisions relating to Charter schools becoming local education agencies and includes alterations regarding the payment mechanism to charter schools. If DESE overpays or underpays the amount due the charter school, such over or under payment shall be repaid by the public charter school or credited to the public charter school in twelve equal payments in the next fiscal year. Any dispute between DESE, the school district, and a charter school regarding funding shall be resolved by the administrative hearing commission, with the option of judicial review. If a dispute should occur, DESE is mandated to make every administrative and statutory effort to allow the continued education of children in their current public charter school educational setting and not take action which prevents (either directly or indirectly) the continued operation of a charter school.

DESCRIPTION (continued)

SECTION 160.420

This section allows district teachers employed in charter schools to retain tenure status and seniority rights for three years. Charter schools are permitted to hire non-certificated administrators.

SECTION 160.530.2 & 3

Currently, in order to be eligible for state aid, a school district must allocate one percent of moneys received pursuant to 163.031, exclusive of categorical add-ons, for professional development. Ninety percent of one percent is distributed by the commission of education to address statewide areas of critical need for learning and development. Ten percent of one percent is distributed in grant awards for the "Success Leads to Success" grant program. With this proposal, the ninety percent of one percent is capped at \$18 million and the ten percent of one percent is capped at \$2 million. DESE shall include a listing of all expenditures under this section in the annual budget documentation presented to the governor and general assembly.

SECTION 160.534

Any amount of the excursion gambling board proceeds deposited in the Gaming Proceeds from Education Fund in excess of the amount transferred to the School District Bond Fund shall be transferred to the Classroom Trust Fund created in Section 163.043.

SECTION 163.042

Any board of any school district may elect in any fiscal year to be considered an "option district". Such option districts shall not be entitled to any state aid under section 163.031. In exchange for forgoing state aid, option districts shall be granted waivers from all Missouri school improvement plan provisions and any requirements otherwise imposed on the school district related to the authority of the state board of education to classify school districts under section 161.092, RSMo, all fund transfer restrictions under chapter 165, RSMo, and such other rules as determined by the commissioner of education. In any year in which a district elects to be an option district, no locally generated revenue pursuant to the definition of local revenue, shall be transferred to the state in any manner whatsoever.

SECTION 163.043

The Classroom Trust Fund is created in the state treasury and shall be distributed by the state board of education to each school district in this state qualified to receive state aid pursuant to

DESCRIPTION (continued)

section 163.021 on an average daily attendance basis. The moneys distributed pursuant to this section shall be spent at the discretion of the local school district.

SECTION 163.044

The Small School District Success Fund is established and is to be administered by DESE. Subject to appropriation, DESE shall award annually up to \$10 million in three-year, renewable grants to school districts possessing an average daily attendance of less than 300. DESE shall issue grants to qualifying school districts for programs pertaining to issues unique to small districts.

SECTION 163.172

Beginning in school year 2009-10 and thereafter, the minimum teacher's salary shall be twenty thousand dollars.

SECTION 165.011

Any district that uses an incidental fund transfer to pay for more than twenty-five percent of the annual certificated compensation obligation of the district and has an incidental fund balance on June 30 in any year in excess of fifty percent of the combined incidental teachers' fund expenditures for the fiscal year just ended shall be required to transfer the excess from the incidental fund to the teachers' fund.

SECTION 165.012

Each school district shall annually report to DESE the following district information as of December 31<sup>st</sup> of the current school year:

The district's unrestricted fund balance in the incidental fund and in the teacher's fund;

The amount of tax anticipation borrowed funds placed in the incidental fund and in the teachers' fund since the beginning of the school year; and,

The net amount of transfer from the incidental fund and teacher's fund to the capital projects fund and to the debt service fund since the beginning of the school year.

SECTION 165.121

The State Auditor shall have the authority to audit any public school district in the state.

DESCRIPTION (continued)

SECTION 168.281

An employee whose appointment has become permanent may be removed for the felony conviction of a crime under any state or federal criminal statute or for incompetency in the line of duty.

Section 1

The Joint Committee on Tax Policy shall review and analyze the local property tax assessment practices of this state. The committee shall make recommendations to the general assembly regarding its findings with regard to the state's assessment practices.

Section 1

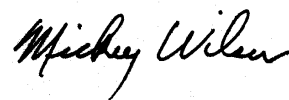
Each school district shall annually report to DESE the total compensation package, including retirement benefits, expressed in dollars, for each school administrator, including the superintendent, all assistant superintendents, principals, and assist principals as well as any consultants hired to do any of the above administrative duties.

The provisions of this proposal 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 Insurance  
Missouri Tax Commission  
Department of Revenue  
Department of Social Services  
Office of Attorney General  
House of Representatives  
Missouri Senate  
Joint Committee on Public Employee Retirement  
Coordinating Board for Higher Education  
Charter School Sponsors  
    Central Missouri State University  
    University of Missouri System  
    Harris-Stowe  
    Southeast Missouri State University



Mickey Wilson, CPA

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