

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0854S.03C
 Bill No.: SCS for SB 5
 Subject: Education, Elementary and Secondary; Department of Elementary and Secondary Education; Teachers
 Type: Original
 Date: February 3, 2023

Bill Summary: This proposal allows the enrollment of nonresident students in public school districts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$343,710)	More or Less than (\$60,076,127 to \$60,196,541)	More or Less than (\$77,889 to \$195,715)
Total Estimated Net Effect on General Revenue	(\$343,710)	More or Less than (\$60,076,127 to \$60,196,541)	More or Less than (\$77,889 to \$195,715)

*The amount of fiscal impact to the state starting in FY 2025 depends upon the number of students that apply (and are accepted) to transfer to a different school district (beginning in FY 2025) and whether DESE withholds state aid for transfer improprieties (beginning in FY 2026). Oversight notes a difference in state aid paid to separate school districts (ranges from under \$1,000 per student to over \$8,000 per student). Therefore, Oversight assumes the net impact to General Revenue could be more or less than the costs estimated for other provisions in this proposal.

*Oversight also notes that resident school districts may still be allowed to count students that transferred out in their weighted average daily attendance (ADA) count used in the foundation formula calculation. Section 163.036 states school districts **may** use an estimate of the weighted ADA for the current year, or the weighted ADA for the immediately preceding year, or the weighted ADA attendance for the second preceding year, whichever is greater. This could result in the state paying the resident district and the transfer district in the same year for a student. However, since Oversight is unable to determine which year each school district will use in future years to determine the amount of state aid each school district is entitled to (weighted ADA), Oversight will, for purposes of this fiscal note, assume the savings/losses will occur immediately.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Parent Public School Choice Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*For simplicity, Oversight assumes all funds will be used within the year they are received. Transfer In and expenditures to parents and school districts in FY 2025 net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	0 FTE	0 FTE or 1 FTE	0 FTE or 1 FTE
Total Estimated Net Effect on FTE	0 FTE	0 FTE or 1 FTE	0 FTE or 1 FTE

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	(Unknown) to Unknown	(Unknown) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from **Department of Elementary and Secondary Education (DESE)** assume the following:

Section 163.161

The language states “Any school district that operates magnet schools as part of a master desegregation settlement agreement shall not be considered inefficient for purposes of state aid for transportation of pupils attending such magnet schools and shall not receive a financial penalty for the magnet school transportation portion of the overall transportation budget as a result thereof.” The transportation payment is not calculated by building within a district at this time. Without a major change to how data is collected and changes to the transportation calculation system the state would not be able to know if the buildings transportation is considered inefficient. If this is mandated, then this would be an entire system change to determine if the penalty would apply. These changes are reflected in the estimate from OA-ITSD.

Section 167.1205

The legislation could have a minimal impact on the foundation formula as students would be allowed to transfer to districts that receive more state aid per pupil. DESE is not able to estimate what this cost could be without knowing what students were going to transfer and to which districts. DESE would also be required to collect data regarding if a district or charter will participate in open enrollment and create a model policy. DESE expects to absorb these duties, however if multiple pieces of legislation pass requiring additional duties FTE may be required to meet the needs of the department. If additional FTE are required DESE will seek authority through the appropriations process.

Section 167.1212

DESE assumes the Treasurer will make payments out of the new "Parent Public School Choice Fund" based upon the language in the legislation. If DESE is to be required to make the payments, there will be additional staff time to track and make the payments. DESE expects to absorb these duties, however if multiple pieces of legislation pass requiring additional duties FTE may be required to meet the needs of the department. If additional FTE are required DESE will seek authority through the appropriations process.

Section 167.1230.1 and 167.1230.2

These sections require the State Board of Education to accept appeals of rejected transfer requests. Based on this proposed language, the Office of Governmental Affairs estimates costs of less than \$100,000. These costs which will be dependent on the number of hearings and appeals the State Board receives, including but are not limited to hearing officer time for hearing and

drafting recommendations for the State Board; administrative assistant time to schedule hearings, provide notice to parties and any settlement negotiations; and court reporter costs. DESE assumes no more than ten hearings per year for an annual cost of \$5,665.50.

- For cost explanation purposes, the average cost for a teacher discipline hearing is \$566.55/hearing:
- Average of 3 hours of hearing officer time x average of \$58.08/hour
- Average of 7 hours administrative assistant time x \$31.08/hour
- Average of \$174.75 in court reporter costs/hearing.

Section 167.1230.11

The process of auditing 10% of districts participating in the public-school open enrollment has the potential to require additional FTE. It is difficult to predict as DESE has no way to estimate the number of districts or students who will participate. At minimum this would be a Director position and computer and monitors would be necessary. Funding for this would be the “Parent Public School Choice Fund” as created in 167.1212 in this bill. If not funded, DESE would assume General Revenue would be required to be used. At this time, DESE will absorb the additional duties and evaluate the need for FTE based on participation. If and when additional FTE are needed, DESE will seek appropriation authority through the annual process.

Officials from the **Office of Administration – Information Technology** state it is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity. This project would have to be prioritized by DESE to be worked among DESE's other projects. ITSD assumes this has potential for massive impacts to the Foundation Formula (School Finance) application/calculations. It's unsure if these modification would be able to be handled appropriately by the current/existing application in place today. It is assumed the Foundation Formula is where these changes would be needed, in order to provide proper funding per provisions for transporting pupils, and state aid. It is assumed these changes/modifications are able to be programmed into the existing school finance/foundation formula application/code. ITSD estimates the project would take 3,618 hours at a contract rate of \$95 for a total cost of \$343,710 with on-going support costs of \$70,461 in FY 2025 and \$72,223 in FY 2026.

Based on a late response received regarding the previous version, officials from the **Office of the State Treasurer** stated the STO does not collect and deposit monies for individual state funds that are administered and managed by other state agencies. The Treasurer’s Office holds and invests monies deposited by agencies and tracks monies by fund. The STO would require 1 FTE (an Analyst at \$50,590) to handle the potential activity.

Oversight assumes the STO is provided with core funding to handle a certain amount of activity each year. Oversight assumes the STO could absorb the costs/duties related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, the STO could request funding through the appropriation process.

In response to the previous version, officials from the **Office of the State Courts Administrator** assumed the proposal would have no fiscal impact on their organization. **Oversight** does not

have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for OSCA.

In response to the previous version, officials from the **Gordon Parks Elementary Charter School** stated this proposal may increase ADA funding and at the same time, may decrease enrollment and ADA funding.

In response to a similar proposal, HB 543 (2021), officials from the **Kansas City School District** stated the cost of this bill is undeterminable until families make the election. The cost of children in district moving out is greater than the cost for those receiving. Loss of local and state revenue for a pupil in KC is roughly \$9,000. Loss of a child or even two or three from a classroom does not allow the sending district to reduce costs of teachers, transportation, etc., causing the revenue hit to not be balanced with reduced expenditures.

Holding up housing inside boundaries for children who attend a neighboring district eliminates the opportunity for traditional and charter schools to fill seats that provide adequate trailing revenues.

In response to a similar proposal, HB 543 (2021), officials from the **Springfield Public Schools** estimated a cost of \$150,000 annually.

In response to a similar proposal, HB 543 (2021), officials from the **Afton School District** assumed the proposal would fiscally impact their school district, but did not elaborate.

In response to a similar proposal, HB 543 (2021), officials' from **Malta Bend R-V School District** and **High Point R-III School District** each assumed the proposal would not fiscally impact their respective districts.

In response to a similar proposal from 2020 (HB 2310), officials from the **Shell Knob School District** assumed this would have a negative fiscal impact.

In response to a similar proposal from 2020 (HB 2310), officials from the **Wellsville-Middletown R-1 School District** assumed this bill has the potential to have a substantial negative fiscal impact on Missouri public schools. It will make long range planning virtually useless if a school can't realistically predict its enrollment figures for the coming years due to the vagaries of this bill that would allow students to transfer with no usable notice to the districts.

Oversight notes this proposal allows student to transfer beginning in the 2024-2025 school year (FY 2025). Because DESE assumes the number of transfers cannot be estimated, and the amount of state funding is district specific (can vary from under \$1,000 per student to over \$8,000 per student, depending upon the school district), this note will reflect a potential (Unknown) cost (if students transfer into districts that receive more state aid) to an Unknown positive impact (if students generally transfer into districts that receive less state aid) for both general revenue and school districts. Oversight assumes that some districts would see a net negative direct fiscal impact, while others would see a net positive direct fiscal impact.

Oversight will reflect a \$60 million appropriation from the General Revenue fund to the new Parent Public School Choice Fund (§167.1212) in FY 2025 (Section B states the appropriate sections shall become effective July 1, 2024). Oversight assumes the funds will be used to reimburse parents and school districts for transportation costs. For simplicity, Oversight assumes all funds will be used within the year they are received.

Oversight notes DESE indicated the potential for an FTE for various provisions of this bill but also notes they indicated they may be able to absorb the additional duties. Oversight is uncertain if DESE can absorb the additional duties in this proposal. Therefore, Oversight will show a range of impact for the FTE of \$0 (DESE can absorb additional duties) to the cost of a Director position to conduct audits.

Oversight assumes section 167.1230 states DESE may withhold state aid payments for transfer improprieties identified in annual audits conducted by DESE. Oversight will show a range of impact of \$0 (no withholds) or an unknown savings to General Revenue.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Costs - OA-ITSD - foundation formula changes p. 4</u>	(\$343,710)	(\$70,461)	(\$72,223)
<u>Transfer Out – to the Parent Public School Choice Fund §167.1212.1 p. 5</u>	\$0	(\$60,000,000)	\$0 or (Unknown)
<u>Costs or Cost Avoidance – Difference in state funding for resident district and nonresident district for transferring students §167.1205 & §167.1210</u>	\$0	(Unknown) or Unknown	(Unknown) or Unknown
<u>Costs – DESE – to conduct hearings on appeals §167.1220 p. 4</u>	\$0	(\$5,666)	(\$5,666)
<u>Costs - DESE - to conduct annual audits - 167.1230.11 p. 4</u>	\$0	\$0 or	\$0 or
Personnel Service	\$0	(\$63,912)	(\$65,190)
Fringe Benefits	\$0	(\$39,495)	(\$39,974)
Expense & Equipment	\$0	(\$17,007)	(\$12,662)
<u>Total Costs – DESE</u>	\$0	(\$120,414)	(\$117,826)
FTE Change	0 FTE	0 or 1 FTE	0 or 1 FTE

<u>FISCAL IMPACT – State Government</u> <u>Continued</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<u>Savings</u> - DESE may withhold state aid for transfer improprieties identified by an audit - §167.1230.11	\$0	\$0	\$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$343,710)</u>	More or Less than (\$60,076,127 to \$60,196,541)	More or Less than (\$77,889 to \$195,715)
Net FTE Change for General Revenue	0 FTE	0 FTE or 1 FTE	0 FTE or 1 FTE
<u>FISCAL IMPACT – State Government</u> <u>Continued</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
PARENT PUBLIC SCHOOL CHOICE FUND			
<u>Transfer In</u> – from General Revenue	\$0	\$60,000,000	\$0 or Unknown
<u>Expenditures</u> – to parents/students or school districts for costs of transportation	<u>\$0</u>	<u>(\$60,000,000)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE PARENT PUBLIC SCHOOL CHOICE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
SCHOOL DISTRICTS			
<u>Nonresident Districts</u> - additional State funding for non-resident transfers but also additional costs to educate those students	\$0	Unknown or (Unknown)	Unknown or (Unknown)
<u>Resident Districts</u> – reduced state funding, but also possible reduction in costs to educate those students	\$0	(Unknown) or Unknown	(Unknown) or Unknown
<u>Transfer In</u> - from the Parent Public School Choice Fund - to reimburse nonresident districts for the costs of special educational services - §167.1211	\$0	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> - DESE may withhold state aid for transfer improprieties identified by an audit - §167.1230.11	\$0	\$0	\$0 or (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	<u>\$0</u>	<u>(Unknown) or Unknown</u>	<u>(Unknown) or Unknown</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act modifies provisions related to the admission of nonresident pupils.

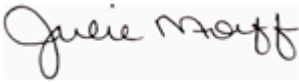
These provisions shall become effective on July 1, 2024.

SOURCES OF INFORMATION

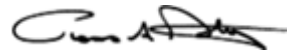
Department of Elementary and Secondary Education
 Office of Administration – Information Technology
 Office of the State Courts Administrator
 Office of the State Treasurer

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Gordon Parks Elementary Charter School
Kansas City Public Schools
Springfield Public Schools
Afton School District
Malta Bend R-V School District
High Point R-III School District
Shell Knob School District
Wellsville-Middleton R-I School District



Julie Morff
Director
February 3, 2023



Ross Strobe
Assistant Director
February 3, 2023