

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1082S.01I
 Bill No.: SB 255
 Subject: Education, Elementary and Secondary; Education; State Treasurer
 Type: Original
 Date: February 27, 2023

Bill Summary: This proposal establishes the Education Savings Account program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0 or More than (\$209,923)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or More than (\$209,923)	\$0 or (Unknown)	\$0 or (Unknown)

*Oversight notes the amounts in FY 2024 only represent the additional staff in the Office of the State Treasurer to administer the Education Savings Account Program. Oversight has no way to estimate the number of students that would have attended a non-public school before this program, but now with an annual scholarship of approximately \$4,000 per year, will utilize the grant to pay for said not-public school tuition (or for other education-related expenses).

THEREFORE, OVERSIGHT HAS REFELECTED AN UNKNOWN COST PAST FY 2024 (subject to appropriation (“\$0 or”). Oversight assumes grants for students who would have otherwise attended public schools but will now attend private schools will not have a net fiscal impact on the state (state adequacy target paid into the ESA instead of to the local public school). **See page 4 for participation/cost scenarios.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
State School Moneys*	\$0	\$0	\$0
Educational Savings Account Program*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Reduced transfers-in and reduced expenditures out net to zero.

Numbers within parentheses: () indicate costs or losses.

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
Educational Savings Account Program	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 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	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** state the impact to DESE is potentially lower number of students enrolled in public schools thus lowering the average daily attendance rate (ADA) used in various payments to local education agencies. However, there is no way to calculate this at this time. The legislation further does not state what funds would be appropriated by the state to the Educational Saving Account Program Fund that is used to provide funding to the savings accounts which does not allow DESE to estimate any loss of funds.

Oversight notes that officials from the **Office of the State Treasurer (STO)** did not respond to the request for fiscal impact.

In response to a similar proposal from 2022 (SB 841) officials from the **STO** stated they operate a similar program in the Missouri Empowerment Scholarship Account. As such, they have estimated a minimum of three (3) FTEs being required to support the proposed program. **STO** has assigned these costs to the General Revenue Fund as these duties are beyond the scope of permitted expenditures from the State Treasurer's General Operations Fund pursuant to Section 30.605, RSMo, which authorizes the Treasurer to retain interest to fund the office functions pertaining to the management of state funds. The basis point cap included within this section cannot absorb additional functions without being raised above 15 basis points.

Even though this program starts July 1, 2024 (FY 2025), **Oversight** assumes the **STO** may need the FTE prior to that date to prepare. Therefore, Oversight will reflect the **STO**'s FTE starting in FY 2024. Also, Oversight assumes the **STO** may have additional expenses such as computer programming, audits, etc. Oversight will assume an unknown amount of expense for these.

Officials from the **Department of Higher Education and Workforce Development** assume the proposal would not fiscally impact their agency.

Oversight notes no local school districts or charter schools responded to the request for fiscal impact.

Oversight only reflects the responses received from state agencies and political subdivisions; however, school districts and charter schools were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Oversight notes average amount of state aid funding per public school student in Missouri is approximately \$4,000. This amount can vary greatly, depending upon the school district! Information from the Fall enrollment of the 2021-2022 school year indicated there were:

elementary schools (K-8)	590,029
secondary schools (9-12)	<u>273,253</u>
Total public schools	863,282
Private schools (est.)	115,000
TOTAL (est.)	978,282

Below is a rough estimate of various percentages of students that could utilize this program times the state adequacy target (dependent upon the amount of the appropriation):

Percentage (example)	Number of public school students participating	Number x \$4,000 (amount of grants)
1%	8,633	\$34,532,000
4%	34,531	\$138,124,000
8%	69,062	\$276,248,000

Percentage (example)	Number of private school students participating	Number x \$4,000 (amount of grants)
1%	1,150	\$4,600,000
4%	4,600	\$18,400,000
8%	9,200	\$36,800,000

Oversight assumes, for those students who would have gone to a public school, but now (with the scholarship) will attend a private school, there would not be an additional cost to the state (assuming the scholarship award is equal to the amount the student would have received if they attend public school). However, for those students who would have not gone to a public school but now (with the scholarship) the state will pay for their private school tuition, this would represent an additional cost to the state of roughly \$4,000 per student (based on the average state aid payment).

Oversight notes this program is subject to appropriation. Due to the many unknowns, Oversight is unable to estimate the size of the program and correspondingly, a fiscal impact from this bill. Oversight will simply reflect the net impact to the state as a range of \$0 (no appropriation to fund the program is made by the General Assembly) to an Unknown amount. Depending upon the circumstances of the students who utilize this program, the state could now be spending \$4,000 per child for students that hadn't received state funding before.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Transfer Out</u> – to the Educational Savings Account Program Fund to fund the program – subject to appropriation	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Transfer Out</u> – to the Educational Savings Account Program Fund for STO FTE	More than (\$209,923)	More than (\$218,614)	More than (\$220,749)
<u>Savings</u> – Less money transferred to the State School Moneys Fund – for those children receiving the scholarship and now not attending public schools – not counted in the Average Daily Attendance	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>More than (\$209,923)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
STATE SCHOOL MONEYS FUND (0616)			
<u>Savings / Cost Avoidance</u> – Children receiving grants and not attending public schools – less money flowing through this fund	\$0	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> - Less money transferred from General Revenue – for those children receiving the scholarship and now not attending public schools – not counted in the Average Daily Attendance	\$0	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE STATE SCHOOL MONEYS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – State Government</u> (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026
EDUCATIONAL SAVINGS ACCOUNT PROGRAM FUND			
<u>Transfer In</u> – from General Revenue for program	\$0	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> – funding grants into education savings accounts	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Transfer In</u> – from General Revenue – for STO expenses	\$0 or More than (\$209,923)	\$0 or More than (\$218,614)	\$0 or More than (\$220,749)
Costs – STO	\$0 or....	\$0 or...	\$0 or...
Personal Service (3 FTE)	(\$99,555)	(\$120,661)	(\$121,867)
Fringe Benefits	(\$67,618)	(\$81,576)	(\$82,014)
Expense & Equipment	(\$42,750)	(\$16,377)	(\$16,868)
Programming, Audits & Other expense	(Unknown)	(Unknown)	(Unknown)
Total Costs – STO	More than (\$209,923)	More than (\$218,614)	More than (\$220,749)
FTE Change – STO	3 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT TO THE EDUCATIONAL SAVINGS ACCOUNT PROGRAM FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Estimated Net FTE Change on the Educational Savings Account Program Fund	3 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> – of funding for students paid from the state	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Savings</u> – possible reduction of local funding for public education if fewer students in public education	\$0	\$0 or Unknown	\$0 or Unknown
<u>Savings</u> – of cost of students that utilized the program to transfer to non-public schools	\$0	\$0 or Unknown	\$0 or Unknown
<u>Costs</u> – local schools responsible for transportation	\$0	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 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 establishes the Education Savings Account Program.

Under this act, elementary and secondary students eligible to attend public school the previous semester or starting school for the first time qualify for the program if their household income does not exceed two times the income level to qualify for free or reduced-price lunch. Students who qualify shall continue to qualify until they graduate high school or reach age twenty-one. (Section 166.610)

A parent of an eligible child may create an education savings account. The Educational Savings Account Program Fund is established consisting of moneys appropriated by the General Assembly for the purpose of funding grants into education savings accounts.

Parents participating in the program shall agree to use the funds in their child's account for certain qualifying expenses, as defined in the act.

This act establishes an order of priority for payments into education savings accounts if the number of eligible students with education savings accounts prevents fully funding the program. Funds deposited into such accounts shall not constitute Missouri taxable income. (Section 166.620)

This act establishes certain duties and authority for the State Treasurer in connection with education savings accounts.

The Treasurer shall qualify private financial management firms to manage such accounts, shall conduct or contract for random annual audits, and may conduct or contract for further account audits.

The Treasurer may find any parent ineligible to participate in the program based on substantial misuse of account funds and may refer such cases to law enforcement agencies if there is evidence of fraud.

The Treasurer shall provide certain information, as described in the act, about the program to parents of participating students.

The Treasurer may deduct up to three percent of program grants to cover costs and administrative expenses, shall establish reasonable fees for the private management of accounts, and shall make payments to eligible accounts each semester. (Section 166.630)

This act requires participating private schools to comply with certain existing health, safety, and anti-discrimination laws and policies. Such schools shall conduct criminal background checks on employees and exclude from employment anyone not permitted to work in a private school under state law and anyone who might reasonably pose a safety threat to students.

Participating schools must provide parents with a receipt for all qualifying expenses. Schools receiving fifty thousand dollars or more from education savings accounts shall demonstrate by means specified in the act that the school can repay the funds if so required.

Participating parents shall ensure that their student takes annual standardized tests meeting requirements described in the act, that results from such testing and certain student demographic information are provided to the state, and that the Treasurer is informed of the student's graduation from high school.

The Treasurer shall ensure compliance with all student privacy laws, shall collect all test results, and shall provide certain data to the public via a website beginning after the third year of data collection.

The Treasurer shall administer annual parent satisfaction surveys for participating parents covering certain topics as described in the act.

This act provides that participating private schools are autonomous and are not agents of state or federal governments. No state agency or officer shall regulate the educational program of participating private schools or education providers. The program does not expand the regulatory authority of the state, its officers, or school districts over private schools or education providers beyond what is necessary to enforce program requirements. Participating private schools and education providers shall be given maximum freedom to provide for students' education needs. (Section 166.640)

This act provides the Treasurer authority to bar schools and education providers from participating in the program based on factors described in the act. (Section 166.650)

Under this act, resident school districts shall provide complete student records to students attending schools or education providers through the program. Resident school districts shall provide transportation to eligible students to participating schools and education providers to the same extent such district would be required to provide transportation for students to private schools, and such districts shall qualify for state transportation aid for each student so transported.

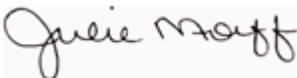
This act shall become effective on July 1, 2024.

This legislation is not federally mandated and would not require additional capital improvements or rental space. This program is similar to the existing Empowerment Scholarship Program.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Higher Education and Workforce Development

NOT RESPONDING:
Office of the State Treasurer



Julie Morff
Director
February 27, 2023



Ross Strobe
Assistant Director
February 27, 2023