

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2044-02
Bill No.: HB 771
Subject: Education, Elementary and Secondary: Elementary and Secondary Education Dept
Type: Funding for Elementary and Secondary Education
Date: March 30, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue*	\$0	(\$134,000,000)	(\$268,000,000)
Total Estimated Net Effect on General Revenue Fund*	\$0	(\$134,000,000)	(\$268,000,000)

* The proposal reflects a four-year phase-in of the new formula of a total of \$536 million. FY 09 cost is estimated at \$402 million and FY 10 cost is \$536 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 four years may exceed \$536 million.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
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
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

*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.

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$480,000	\$480,000

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** 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 Mental Health (DMH)** state that the three sections of this proposal that affect DMH (Sections 149.015; 166.260; 167.126), will have no fiscal impact on their agency.

Officials from the **Office of State Treasurer** and the **Department of Insurance** 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

ASSUMPTION (continued)

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 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** state this proposal will have no fiscal impact on their institution.

According to officials from the **Department of Elementary and Secondary Education**, HB 771 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 \$536 million. The proposal reflects a four-year phase-in of the new formula, but this does not mean that the estimated \$536 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 \$536 million.

Officials from the **Special School District of Saint Louis County** did not assume a fiscal impact on the proposed change in Section 178.296, but stated the proposal would affect all public school districts.

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)**, there should be no added cost to the BAP as a result of this proposal; however, there will be a significant cost increase to General Revenue in order to fund the new formula and to replace riverboat gaming funds that will be diverted from the formula to the Classroom Trust Fund.

ASSUMPTION (continued)

SECTION 137.776

Officials from the **State Tax Commission (TAX)** state that TAX must provide a supply of the "Certificate of Value" forms to each County Recorder. The cost of approximately 200,000 forms is estimated to be \$2,000. The Commission will absorb this cost.

This form must be completed at the time any residential or commercial real property within this state is granted, assigned, transferred or otherwise conveyed or vested to any person or persons. This form must be delivered to and filed by the County Assessor. A \$10.00 filing fee has been created and must be paid at the time a deed is filed. However, the legislation is not clear on which county official is to receive the \$10.00 fee, the County Assessor or the County Recorder of Deeds or if the fee is to be deposited in the county's General Revenue Fund.

Assuming there are 2.4 million parcels of residential and commercial real property in the State of Missouri and assuming that 2% of the property is transferred annually, an additional \$480,000 in revenue could be generated for the counties.

Officials from the **Boone County Recorder of Deeds, Laclede County Assessor's Office**, and the **Platte County Recorder of Deeds** stated this proposal would result in additional administrative duties to their offices.

Officials from the **Saint Louis County Recorder of Deeds** and the **Saint Louis County Assessor's Office** indicated no fiscal impact.

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.

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.

Officials from the **Office of Attorney General** 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

Cost - Department of Elementary
 and Secondary Education - School
 Funding*

\$0	(\$134,000,000)	(\$268,000,000)
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**ESTIMATED NET EFFECT ON
 GENERAL REVENUE***

<u>\$0</u>	<u>(\$134,000,000)</u>	<u>(\$268,000,000)</u>
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* The proposal reflects a four-year phase-in of the new formula of a total of \$536 million. FY 09 cost is estimated at \$402 million and FY 10 cost is \$536 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 four years may exceed \$536 million.

**GAMING PROCEEDS FOR
 EDUCATION FUND**

Savings - Decreased Transfers to
 State School Moneys Fund

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

<u>\$0</u>	<u>(\$270,514,200)</u>	<u>(\$275,924,484)</u>
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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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**STATE SCHOOL MONEYS
 FUND**

Savings - Decreased Distributions to
 School Districts

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

<u>\$0</u>	<u>(\$270,514,200)</u>	<u>(\$275,924,484)</u>
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**ESTIMATED NET EFFECT ON
 STATE SCHOOL MONEYS
 FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
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CLASSROOM TRUST FUND

Transfer In - Gambling Boat

Proceeds (Section 160.534)	\$0	\$270,514,200	\$275,924,484
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Transfer Out - Distribution to School

Districts (Section 163.043)	<u>\$0</u>	<u>(\$270,514,200)</u>	<u>(\$275,924,484)</u>
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ESTIMATED NET EFFECT ON CLASSROOM TRUST FUND

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
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COUNTY RECORDERS

<u>Income</u> - Certificate of Value filing fees	\$0	\$480,000	\$480,000
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ESTIMATED NET EFFECT TO COUNTY RECORDERS

<u>\$0</u>	<u>\$480,000</u>	<u>\$480,000</u>
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LOCAL SCHOOL DISTRICTS

Income - Proceeds from Classroom Trust Fund

\$0	\$270,514,200	\$275,924,484
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Loss - Reduced Distributions from State School Moneys Fund

<u>\$0</u>	<u>(\$270,514,200)</u>	<u>(\$275,924,484)</u>
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ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS

<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

This proposed legislation comprehensively revises the state education funding formula to be phased in over four years beginning July 1, 2006. The current formula is levy-driven with an equalizing factor, the guaranteed tax base, to achieve the goal of providing the same amount of

DESCRIPTION (continued)

money per student, per penny of the tax rate. The formula in the proposal is based on student needs with the chief feature of the new formula being a minimum amount of money that is needed to educate each child, known as the state adequacy target (SAT).

To establish the SAT, every two years the Department of Elementary and Secondary Education will identify schools that have made perfect scores on their annual performance reports. These districts are known as performance districts, and their characteristics form the basis for several calculations in the formula. The expenditures in those districts, through a process specified in the proposal, become the basis for the SAT, which does not decrease when it is recalculated.

The new formula uses weighted average daily attendance (WADA) to direct additional money to students who qualify for free and reduced-price lunches, those in special education, and those with limited English proficiency. The threshold for WADA is set at the aggregate percentage of the performance districts' students in those three categories. The additional average daily attendance resulting from the weights in excess of the threshold is added to the average daily attendance. The SAT multiplied by the WADA becomes the basis for the first calculation in the state aid formula when it is multiplied by the dollar value modifier (DVM), an index of the relative buying power of a dollar, keyed to the county wage-per-job data.

The district's local effort is subtracted from the SAT multiplied by the WADA multiplied by the DVM figure. If the result is a positive number, it is the state aid payment. If the number is below zero, the district is held harmless and will receive no less revenue on a per-WADA basis than it did in the previous year. The initial hold-harmless year is 2005-2006. The DVM is applied to the hold-harmless payment.

The local effort that is deducted from the first line includes the actual amount of local revenue in Fiscal Year 2005 (the amount used in calculating Fiscal Year 2007), except if the district's levy is lower than the performance levy, defined as the median levy of the performance districts. A district levying less than the performance levy will have its local effort calculated with the performance levy. Every subsequent year, local effort will be calculated as before, except that a district that has less local revenue because its assessed valuation has fallen from the Fiscal Year 2005 level will have its local effort calculated based on its current assessed valuation and the operating levy used in the Fiscal Year 2007 calculation. No growth in local revenue will offset state aid. This provision anticipates, but does not create, local option sales or income taxes.

The current formula has several categorical aid streams: transportation continues unchanged, as do career ladder, vocational education, and the educational and screening program. The line 14

DESCRIPTION (continued)

"at-risk," gifted, special education, and remedial reading categoricals are folded back into the district's base, along with the fair share (cigarette tax) and free textbook (foreign insurance) moneys. Revenues from gaming, which will be deposited into the Classroom Trust Fund, also established by the proposal, will be distributed on an average-daily-attendance basis.

The proposal creates option districts, which may elect to forgo state aid in return for regulatory relief and requires a certificate of value, a closed record which contains the actual amount of consideration or reasonable estimate of the true current market value of property and must be filed with the assessor before the recorder of deeds can accept the filing of instruments conveying property.

Many of the sections of the proposal revise existing law to the new terminology and delete obsolete provisions.

The proposal has an effective date of 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

SOURCES OF INFORMATION (continued)

Central Missouri State University

NOT RESPONDING

Office of Attorney General

Charter School Sponsors

Saint Louis Public School District

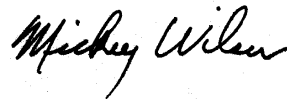
Harris-Stowe

Southeast Missouri State University

University of Missouri System

University of Missouri - Kansas City

University of Missouri - Rolla



Mickey Wilson, CPA
Director
March 30, 2005