

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5465-01  
Bill No.: HB 1888  
Subject: Education, Elementary and Secondary  
Type: Original  
Date: February 12, 2016

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Bill Summary: This proposal establishes education savings accounts.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue*	(Unknown**)	(Unknown**)	(Unknown**)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown**)</b>	<b>(Unknown**)</b>	<b>(Unknown**)</b>

**\*Oversight notes that DESE and the Office of Administration's Division of Budget and Planning were not able to provide Oversight with a projection of when the foundation formula may be fully funded. This proposal has a provision that may not have a fiscal impact until such time as the formula is fully funded. Oversight, for fiscal note purposes, is showing the impact of that provision as if the formula were fully funded.**

**\*\* This proposal could range from \$7,112,244 (½ of 1% of students) up to \$1,422,220,456 (all eligible students) of those who may establish education savings accounts.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	5 FTE	5 FTE	5 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>5 FTE</b>	<b>5 FTE</b>	<b>5 FTE</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

**Oversight** notes this proposal allows an “opt-in child” to participate in certain situations. An “opt-in child” is defined as a child for whom an educational savings account has been established.

#### **§160.430, §162.1500, §162.1505 and §162.1510 Classes and Extracurricular Activities**

**Oversight** notes these sections allow a “opt-in child” to participate in classes or extracurricular activities at any charter or public school. The “opt-in child” may be required to file certain paperwork and pay all applicable fees before participating. Oversight assumes the Department of Elementary and Secondary Education (DESE) is required to provide a form for an “opt-in child” to participate. Oversight assumes the creation of the form can be handled with DESE existing resources.

#### **§166.800, §166.802, §166.804, §166.806 Education Savings Accounts**

**Oversight** notes these sections create the education savings account and establish rules for how the money is to be distributed in the accounts. In order for a student to be eligible to create an education savings account the student must be enrolled in a public school for 100 days. Then the student and their parent may apply for an education savings account which will be funded with a grant. Upon receipt of the grant, the student is allowed to receive instruction from a participating entity defined as an accredited nonpublic school, a college or university, or a tutor or tutoring agency. A student is eligible to receive the grant through graduation from high school.

**Oversight** notes that in §166.804 the grant of money is to be deposited into the education savings account of a child, each year the child is eligible. For a child with a disability the grant is equal to 100% of the state adequacy target. For a child without a disability, the grant is equal to 90% of the state adequacy target. Oversight notes this proposal does not designate a funding source for the grant and therefore, for fiscal note purposes, Oversight will show the grant being funded by General Revenue.

Officials at the **Office of the State Treasurer (STO)** assume they would need one Legal Counsel, one Accounting Specialist II, one Accounting Specialist I, one Accountant I and one Computer Information Technologist III to administer this program. The STO estimates total personnel and expenses costs of \$434,343 in FY 2017. STO estimates these costs will come from General Revenue as the legislation is unclear as to whether they can use the 3% fee from educational savings accounts to cover the costs of a financial administrator.

ASSUMPTION (continued)

Total revenues would depend on the number of children who sign up for the accounts. STO is not able to estimate the amount of the revenue generated from the 3% fee and assumes the impact is unknown.

§163.031 Payments to Schools

**Oversight** notes that this section would require DESE to subtract from a school's payment the amount deposited into education savings accounts in their district. Oversight is unable to predict how many students would have education savings accounts. Oversight assumes this would fiscally impact the schools. Oversight will show the impact as Unknown.

Officials at the **DESE** assume no impact to DESE as the foundation formula is not currently funded. The school districts may potentially have significant costs.

**Oversight** notes that DESE and the Office of Administration's Division of Budget and Planning were not able to provide Oversight with a projection of when the foundation formula may be fully funded. This proposal has a provision that may not have a fiscal impact until such time as the formula is fully funded. Oversight for fiscal note purposes is showing the impact of that provision as if the formula were fully funded.

**Oversight** notes this proposal may encourage students currently in the public schools to transfer to a private school and use their education savings account to pay for tuition. Oversight notes there are currently 887,368 students in public schools. Oversight assumes that these students would not fiscally impact the state as the state currently is paying for them.

**Oversight** notes there are approximately 211,766 students that attend private schools or are home schooled that may attend a public school for 100 days to be eligible for this program. If the formula remains underfunded, these additional students would decrease the amount schools currently receive per student even further but would not change the impact to the state.

ASSUMPTION (continued)

**Oversight** notes that if the formula were fully funded and these students were to come into the system the formula call would need to be increased by the following:

100% of the students	211,766 x \$6,716 (state payment)	= \$1,422,220,456
50% of the students	105,883 x \$6,716 (state payment)	= \$711,110,228
25% of the students	52,942 x \$6,716 (state payment)	= \$355,558,472
10% of the students	21,176 x \$6,716 (state payment)	= \$142,218,016
5% of the students	10,588 x \$6,716 (state payment)	= \$71,109,008
2.5% of the students	5,294 x \$6,716 (state payment)	= \$35,554,504
1% of the students	2,118 x \$6,716 (state payment)	= \$14,224,488

**Oversight** notes this program would become effective on August 28, 2016, and the students would begin their 100 days in public school. Therefore the most money that could be claimed in FY 2017 is half of the amount listed above. Oversight is not able to determine how many students would participate in this program, and will show the impact as Unknown (\$7,112,244 up to \$1,422,220,456).

Bill as a Whole

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal creates education savings accounts for "opt-in children" who wish to participate in school district or charter school academic or extracurricular activities, and for students to attend nonpublic schools administered by participating entities. Education savings accounts are deducted from state aid amounts for school districts, but it is unclear what funds are deposited as grants by the Office of the State Treasurer to these education savings accounts. If non-public monies are deposited, reversion of education savings account balances to General Revenue may increase Total State Revenue. But if the education savings accounts are funded with state aid, the proposal may impact foundation formula funding. DESE may be able to provide more specific formula impact information.

Officials at the **Chilhowee R-IV School District** assume this could cause a loss of state funding based on the amounts of funds deposited into education savings accounts. The exact dollar amount is unknown but could dramatically affect the ability of the district to operate.

Officials at the **Forsyth R-III School District** assume a cost of \$25,000.

Officials at the **Kearney School District** assume a loss of not less than \$400,000.

ASSUMPTION (continued)

Officials at the **New Haven School District** assume a cost of \$500 to \$1,500 per opt-in student in expenses attributable to participation in activities like band for which the district cannot receive state aid.

Officials at the **Sarcoixie R-II School District** assume the impact is unknown as it would depend on the number of students.

Officials at the **St. Elizabeth School District** assume the savings plan for parents would have no impact on the district. The opt-in academics could cost \$29,000 if additional teachers need to be added.

Officials at the **West Plains School District** assume the exact impact is unknown but could be up to \$2 million annually.

Officials at the **Hawthorn Leadership, Macon County R-IV, Malta Bend** and the **St. Charles** school districts each assume there is no fiscal impact from this proposal to their respective districts.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**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.

ASSUMPTION (continued)

Officials at the following school districts: Arcadia Valley R-2, Avilla R-13, Bakersfield, Belton, Benton County R-2, Bismark R-5, Bloomfield R-14, Blue Springs, Bolivar R-I, Bowling Green R-1, Branson, Brentwood, Bronaugh R-7, Campbell R-2, Carrollton R-7, Caruthersville, Cassville R-4, Central R-III, Chillicothe R-II, Clarkton C-4, Cole R-I, Columbia, Concordia R-2, Crawford County R-1, Crocker R-II, Delta C-7, East Carter R-2, East Newton R-6, Eldon R-I, Everton R-III, Fair Grove, Fair Play, Fayette R-3, Fox C-6, Fredericktown R-I, Fulton, Grain Valley, Hancock Place, Hannibal, Harrisonburg R-8, Harrisonville, Hillsboro R-3, Hollister R-5, Humansville R-4, Hurley R-1, Independence, Jefferson City, Kansas City, Kennett #39, King City R-1, Kingston 42, Kirbyville R-VI, Kirksville, Lee Summit, Leeton R-10, Lewis County C-1, Lindbergh, Lonedell R-14, Macon County R-1, Mehville, Meramec Valley R-3, Mexico, Middle Grove C-1, Midway R-1, Milan C-2, Moberly, Monroe City R-I, Morgan County R-2, Nixa, North St. Francois Co. R-1, Northeast Nodaway R-5, Odessa R-VII, Oregon-Howell R-III, Orrick R-11, Osage County R-II, Osborn R-O, Parkway, Pattonville, Pettis County R-12, Pierce City, Plato R-5, Princeton R-5, Raymore-Peculiar R-III, Raytown, Reeds Springs R-IV, Renick R-5, Richland R-1, Richmond R-XVI, Riverview Gardens, Salisbury R-4, Scotland County R-I, Sedalia, Seymour R-2, Shelby County R-4, Shell Knob #78, Sikeston, Silex, Smithville R-2, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, Sullivan, Valley R-6, Verona R-7, Warren County R-3, Warrensburg R-6, Webster Groves, Westview C-6 and the Wright City R-2 School District did not respond to **Oversight's** request for fiscal impact.

Officials at the following charter schools: Carondelet Leadership Academy, Eagle College Prep, Frontier Schools, and the KIPP Endeavor Academy of Kansas City did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<b>GENERAL REVENUE</b>			
<u>Revenue</u> - State Treasurer - collection of the 3% administration fee	Unknown	Unknown	Unknown
<u>Cost</u> - State Treasurer - personnel and expense (5 FTE)	(\$434,343)	(\$325,668)	(\$328,925)
<u>Cost</u> - DESE - grant money	<u>(Unknown**)</u>	<u>(Unknown**)</u>	<u>(Unknown**)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE*</b>	<b><u>(Unknown**)</u></b>	<b><u>(Unknown**)</u></b>	<b><u>(Unknown**)</u></b>

Estimated Net FTE Effect on General Revenue 5 FTE 5 FTE 5 FTE

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**\*\* This proposal could range from \$7,112,244 (½ of 1% of students) up to \$1,422,220,456 (all eligible students) of those who may establish education savings accounts.**

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<b>LOCAL SCHOOL DISTRICT FUNDS</b>			
<u>Cost</u> - School Districts - loss of state funding	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICT FUNDS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT - Small Business

Small tutoring businesses may benefit from this proposal.



## FISCAL DESCRIPTION

This bill establishes education savings accounts and defines an "opt-in child" as a child for whom an education savings account has been established who is not enrolled full-time in a public or private school and who receives all instruction from a participating entity.

Participation in a Class or Extracurricular Activity (§160.430) - The bill requires the governing body of a charter school to authorize an opt-in child to participate in a class that is not otherwise available if there is space available, the parent or legal guardian of the child demonstrates the child is qualified, and a notice of intent of an opt-in child to participate in programs and activities is filed with the school district.

The bill specifies that the governing board of the charter school is not required to provide transportation for the child to attend the class or activity.

The bill allows the governing board of a charter school to revoke its approval under these provisions if it determines that the child has failed to comply with applicable statutes, rules, or regulations and allows the governing body of the charter school to require proof of the identity of the child.

Notification of an Opt-in Child (§162.1500) - The parent must provide notice, which includes the full name, age, and gender of the child and the full name and address of each parent, to the school district where the child would otherwise attend or the charter school where the child was previously enrolled that his or her child is an opt-in child.

The school district must provide a written acknowledgment, to be deemed as proof of compliance, to a parent who files this notice. The superintendent of a school district or the governing body of a charter school must process written requests for a copy of the records of the school district or charter school no later than five days after receiving the request. These records may only be released to the Office of Administration and House Budget Committee; a person or entity specified by the parent of the child or by the child if he or she is 18, or if it is required by statute.

Public schools may only use commonly used practices in determining the academic ability, placement, or eligibility of the child if an opt-in child seeks admittance. A charter school must notify the school board of the resident school district of a child's enrollment in the charter school.

Regardless of whether the charter school provides notification, the charter school may count the child who is enrolled for purposes of state funding. Schools must not discriminate in any manner against an opt-in child or a child who was formerly an opt-in child.

FISCAL DESCRIPTION (continued)

Each school district must allow an opt-in child to participate in all college entrance examinations offered in Missouri. Each school district must provide information regarding such examinations upon request.

Notice of Intent (§162.1505) - The Department of Elementary and Secondary Education (DESE) must develop a standard form for the notice of intent for opt-in children to participate in programs or activities. Parents must file a notice of intent if their opt-in child wishes to participate in classes or activities at a public school or through a school district, or through the Missouri State High School Activities Association (MSHSAA) or its successor.

Procedures and Rules (§162.1510) - The bill specifies the procedure and rules for opt-in children to participate in classes and extracurricular activities, including interscholastic activities and events.

Funding Formula (§163.031) - The bill includes in the current funding formula that the funds deposited in education savings accounts established on behalf of children who reside in a district will be subtracted from the current model.

Education Savings Account (§166.802) - These provisions specify the requirements for establishing an education savings accounts for a child by entering into an agreement with the state treasurer. The agreement must include certain information specified in the bill.

If an agreement is entered into under these provisions, an education savings account must be established by the parent on behalf of the child and be maintained with a financial management firm qualified by the State Treasurer. The agreement is valid for one school year but may be terminated early as specified and will terminate automatically if the child no longer resides in the state.

A parent may not establish an education savings account for a child who will be homeschooled, who will receive instruction outside of the state, or who will remain enrolled full-time in a public school. A parent may establish an education savings account for a child who receives a portion of his or her instruction from a participating entity.

Monies Deposited into an Education Savings Account (§166.804) - The bill requires that a grant of money be deposited in the education savings account on behalf of a child if a parent enters into or renews an agreement and specifies how the grant will be determined.

### FISCAL DESCRIPTION (continued)

Use of Education Savings Account Monies (§166.806) - The education savings account may be used for tuition, fees, required textbooks, tutoring, transportation and other expenses as specified in the bill.

A participating entity that receives payments from an education savings account must not refund or rebate any portion of the payment to the parent as specified in the bill.

Financial Management Firms Qualifications (§166.808) - These provisions specify a private financial management firm must be qualified by the State Treasurer to manage the accounts and must establish management fees based on market rates. The account must be audited each year by a certified or licensed public accountant.

Participating Entities (§166.810 and §166.812) - The bill specifies the criteria for an entity to apply to become a participating entity. The State Treasurer shall approve or deny an application to become a participating entity as specified. If a participating entity is anticipated to receive more than \$50,000 from education savings account payments the entity must post a surety bond or provide evidence to the State Treasurer that they have sufficient assets equal to the anticipated amount.

List of Participating Entities (§166.814) - The State Treasurer must post a list of participating entities and DESE must require the resident school district to annually provide the participating entity any educational records of a child on whose behalf a grant has been made.

Extracurricular Activities (§167.785) - The bill authorizes MSHSAA to make rules for opt-in child participation in extracurricular activities and specifies that the same rules will apply for opt-in children as those pupils enrolled in public school.

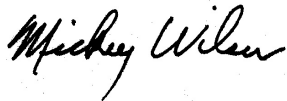
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Chilhowee R-IV School District  
Department of Elementary and Secondary Education  
Forsyth R-III School District  
Hawthorn Leadership Academy  
Joint Committee on Administrative Rules  
Kearney School District

SOURCES OF INFORMATION (continued)

Macon County R-IV School District  
Malta Bend School District  
New Haven School District  
Office of Administration's Division of Budget and Planning  
Office of the Secretary of State  
Office of the State Treasurer  
Sarcoxie R-II School District  
St. Charles School District  
St. Elizabeth School District  
West Plains School District



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