

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4735H.03P
 Bill No.: Perfected HCS for HB 1989
 Subject: Department of Elementary and Secondary Education; Education, Elementary and Secondary; Children and Minors
 Type: Original
 Date: January 30, 2024

Bill Summary: This proposal establishes transfer procedures to nonresident districts for students in public schools.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	(\$436,950)	More or Less than (\$80,335,593)	More or Less than (\$342,039)
Total Estimated Net Effect on General Revenue	(\$436,950)	More or Less than (\$80,335,593)	More or Less than (\$342,039)

*The amount of fiscal impact to the state starting in FY 2026 depends upon the number of students that apply and are accepted to transfer to a different school district (beginning in FY 2026) and whether DESE withholds state aid for transfer improprieties (beginning in FY 2027). 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 2025	FY 2026	FY 2027
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 2026 net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	2 FTE	2 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 2025	FY 2026	FY 2027
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 167.1200 - This section 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 would be without knowing what students were going to transfer and to which districts and is showing additional foundation formula costs as unknown.

Section 167.1212 - This section would create the "Parent Public School Choice Fund" with \$80,000,000 to be appropriated into this fund. DESE assumes this would be a transfer appropriation from General Revenue.

Section 167.1220.5(4), (5) – This section requires an appeal be granted by the department to a resident district if it believes that a receiving district is in violation of this subsection. The Commissioner must take testimony and uphold or reverse the decision of the receiving school district. That decision is subject to an appeal to the State Board of Education. Sections 167.1227 also provides for an appeal to the department but does not require an adversarial hearing.

Based on this proposed language, the Office of Governmental Affairs estimates costs up to \$100,000. These costs which will be dependent on the number of hearing/appeals the Commissioner and State Board receives and will include:

- 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;
- Court reporter costs;

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 167.1229.1 – This section requires the department to collect data to allow a study of the effects of open enrollment to be performed and Section 167.1229.2 requires auditing 10% of districts participating in the public-school open enrollment. These duties along with overseeing the program as outlined would require a new FTE Director and an FTE Assistant Director/Program Specialist along with associated benefits, and E&E costs.

Officials from the **Office of Administration – Information Technology (ITSD)** state it is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity. ITSD assumes the Foundation Formula is where changes would be needed, in order to provide proper funding per provisions for transporting pupils, and state aid for such. 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 these changes/modifications are able to be programmed into the existing school finance/foundation formula application/code. ITSD estimates the project would take 4,158 hours at a contract rate of \$105 for a total cost of **\$436,590** with on-going support costs of **\$89,501** in FY 2026 and \$91,739 in FY 2027.

Potential applications changes/updates:

Section 163.161 - This section 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 system would require an update/change in order to put this language into practice.

167.1205.2 (4) (a) – This section will require an online application and system to be created to track the participating districts and number of applicants and maximum number of students allowed to transfer to each school district. DESE assumes current systems could be updated to include this information.

167.1215.6 – This section will need some online system to allow nonresident districts to report to DESE whether they accept or reject applications and provide notice to all districts of the information. DESE assumes current systems could be updated to include this information.

167.1229.1 – This section will require the department to collect data to allow a study of the effects of open enrollment to be performed. DESE assumes current systems could be updated to include this information.

In response to a similar proposal, HCS for HB 253 (2023), 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 this office.

Officials from the **Office of the State Treasurer** assume the proposal will 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.

In response to a similar proposal, HCS for HB 253 (2023), officials from **North Pemiscot Co. R-I School District** stated there would be an impact but did not provide any additional information.

In response to a similar proposal, HCS for HB 253 (2023), officials from **the Dallas County R-1 School District** stated the fiscal impact to local school districts would be drastic. While school districts have the option to opt in this program, they do not have the option to opt out of their families choosing another district and thereby losing that individual student's state aid. This alone could be a drastic financial loss to many districts in Missouri. The fiscal impact to districts gaining students and their state aid payments would also be drastic. The state aid does not cover the cost of facilities and it does not cover the full cost of educating a student. The remainder of those costs are made by local tax effort. As a district that would likely receive many students from other small districts, it would make it difficult in the future to pass referenda in their district when not all of their students are residents of the district. Additionally, this bill would force districts to hire additional staff and divert additional resources toward marketing of their district to (at minimum) balance the number of students lost to other districts with the number of students gained in the district. Finally, with many districts losing enrollment this would make them "hold harmless" under the current foundation formula. This would mean there is less money statewide to be able to support each student.

In response to a similar proposal, HCS for HB 253 (2023), 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 students to transfer beginning in the 2025-2026 school year (FY 2026). 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 an \$80 million appropriation from the General Revenue fund to the new Parent Public School Choice Fund (§167.1212.1) in FY 2026 (Section 167.1230.2 states the appropriate sections shall become effective July 1, 2025). 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.

In response to a similar proposal, SB 5 (2023), DESE stated they assume no more than ten hearings per year for an annual cost of \$5,665.50 for sections 167.1220 and 167.1230. **Oversight** will show an annual cost for hearings of \$5,666 beginning in FY 2026.

Oversight will show cost estimated by DESE for two FTE (Director and Assistant Director/Program Specialist) along with associated benefits, and E&E costs to conduct audits per Section 167.1229.1.

Oversight assumes section 167.1229.2 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 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Costs - OA-ITSD - foundation formula changes p.4</u>	(\$436,590)	(\$89,501)	(\$91,739)
<u>Transfer Out – to the Parent Public School Choice Fund §167.1212.1 - p.6</u>	\$0	(\$80,000,000)	\$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 - p.6</u>	\$0	(Unknown) or Unknown	(Unknown) or Unknown
<u>Costs – DESE – to conduct hearings on appeals §167.1220 & §167.1230 p.6</u>	\$0	(\$5,666)	(\$5,666)
<u>Costs - DESE - to conduct annual audits - 167.1229 - p.6</u>			
Personnel Service	\$0	(\$142,302)	(\$145,148)
Fringe Benefits	\$0	(\$85,194)	(\$86,297)
Expense & Equipment	\$0	(\$12,930)	(\$13,188)
<u>Total Costs – DESE</u>	\$0	(\$240,426)	(\$244,634)
<u>FTE Change</u>	0 FTE	2 FTE	2 FTE
<u>Savings - DESE may withhold state aid for transfer improprieties identified by an audit - §167.1229 - p.6</u>	\$0	\$0	\$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$436,590)	More or Less than (\$80,335,593)	More or Less than (\$342,039)
<u>Estimated Net FTE Change on General Revenue</u>	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT – State Government</u> Continued	FY 2025 (10 Mo.)	FY 2026	FY 2027
PARENT PUBLIC SCHOOL CHOICE FUND			
<u>Transfer In</u> – from General Revenue	\$0	\$80,000,000	\$0 or Unknown
<u>Expenditures</u> – to parents/students or school districts for costs of transportation	\$0	(\$80,000,000)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE PARENT PUBLIC SCHOOL CHOICE FUND	\$0	\$0	\$0

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
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 Parent Public School Choice Fund - to reimburse transportation costs - §167.1210.6 (7)	\$0	\$0 or Unknown	\$0 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 - §167.1229	\$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.

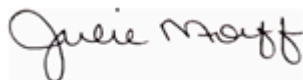
FISCAL DESCRIPTION

This bill establishes transfer procedures to nonresident districts for students in public schools.

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 Administration – Information Technology
Office of the State Courts Administrator
Office of the State Treasurer
Dallas County R-1 School District
North Pemiscot Co. R-I
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



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January 30, 2024



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