

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5389H.02I
 Bill No.: HB 2937
 Subject: Education, Elementary and Secondary; Department of Elementary and Secondary Education; Children and Minors; State Treasurer
 Type: Original
 Date: March 22, 2024

Bill Summary: This proposal modifies provisions governing elementary and secondary education.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	Could exceed (\$899,801)	Could exceed (\$836,088)	Could exceed (\$850,008)
Total Estimated Net Effect on General Revenue	Could exceed (\$899,801)	Could exceed (\$836,088)	Could exceed (\$850,008)

* **Oversight** notes section 163.431.4.2(a) states at least twenty-five percent of the state revenue, as described in Article IX, Section 3(b) of the Constitution of Missouri, shall be appropriated annually to the school district per-pupil payments fund. In FY 2024, the total operating budget for general revenue was \$15.221 Billion. Department of Secondary and Elementary Education (DESE) received \$4,005,837,790 (26%). Oversight is uncertain the exact amount that will be appropriated annually; therefore, Oversight will reflect a more or less than \$3,805,250,000 (\$15,221,000,000*25%) transfer out from general revenue based on the FY 2024 budget.

***Oversight** notes that the proposal requires the allocation of funds to be distributed based on the data provided by the DESE through the State Treasurer’s Office (STO) who will handle transfers and disbursements from the School District Per-Pupil Payments Fund. Oversight will reflect a cost avoidance to DESE of more or less than \$3,805,250,000 (\$15,221,000,000*25%) as a loss to DESE’s spending authority.

*Oversight notes the cost reflected in General Revenue includes programming for data collection and foundation formula through DESE/ITSD and additional FTE for STO to implement requirements of the proposal will potentially exceed \$250,000. Depending upon their level of involvement, Oversight assumes STO could require substantially more than the 10 FTE requested.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Classroom Trust Fund*	\$0	\$0	\$0
School District Per-Pupil Payments Fund	\$0	\$0	\$0
Student Opportunity Savings Account Program Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Distributions and transfers net to zero.

Numbers within parentheses: () indicate costs or losses.

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	Up to 10 FTE	Up to 10 FTE	Up to 10 FTE
Total Estimated Net Effect on FTE	Up to 10 FTE	Up to 10 FTE	Up to 10 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 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 163.431 – Student Opportunity Savings Accounts Program

Officials from the **Department of Elementary and Secondary Education (DESE)** assume section 163.431 would require a new per pupil payment to be made by the Treasurer's Office. Based upon the language in Section 163.431 these payments would be based upon appropriation and so DESE is showing the cost as \$0 to Unknown. DESE assumes these payments would be in addition to the current payments made to school districts and charter schools as described in current Missouri statute.

Upon further inquiry, **DESE** stated this bill creates an entirely new funding mechanism to distribute funding on a per-pupil basis. However, it does not remove any of the current funding mechanisms for schools within the statutes. The current foundation formula has survived legal challenges through the court system. Language that directs all education funding to the new mechanism while leaving the existing mechanism intact appears to create an internal conflict within the statutes. DESE is not in a position to determine how that conflict would be resolved.

The language in the bill also refers to placing all money appropriated for education into the new fund. DESE receives state appropriations for all federal funds distributed to schools, which have their own rules regarding allocations and allowable uses, that would otherwise be in conflict with this statutory language.

Officials from **Office of Administration – Information Technology (OA-ITSD)** state it is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity.

Section 163.431 would require payments based on monthly enrollment. DESE does not currently collect a monthly enrollment and would require ITSD programming to allow for this data collection. ITSD also assumed changes would need to be made to the foundation formula payment system to allow for new payments. ITSD estimates the project would take 1,879.20 hours at a contracted rate of \$105 for a total cost of **\$197,316** in FY 2025, **\$40,450** in FY 2026, and **\$41,461** in FY 2027.

Oversight notes section 163.431.4.2(a) states at least twenty-five percent of the state revenue, as described in Article IX, Section 3(b) of the Constitution of Missouri, shall be appropriated annually to the school district per-pupil payments fund. In FY 2024, the total operating budget for general revenue was \$15.221 Billion. DESE received \$4,005,837,790 (26%).

Oversight assumes that this proposal requires at least twenty-five percent of the state revenue to be appropriated to the school district per-pupil payments fund. Oversight is uncertain the exact

amount that will be appropriated annually; therefore, Oversight will reflect a more or less than \$3,805,250,000 ($\$15,221,000,000 \times 25\%$) transfer out from general revenue based on the FY 2024 budget.

Oversight notes that the proposal requires the allocation of funds to be distributed based on the data provided by the DESE to the STO who will handle transfers and disbursements from the School District Per-Pupil Payments Fund. Since section 163.431.4.2(a) states at least twenty-five percent of the state revenue, as described in Article IX, Section 3(b) of the Constitution of Missouri, shall be appropriated annually to the School District Per-Pupil Payments Fund (operated under STO), Oversight will reflect a cost avoidance to DESE of more or less than \$3,805,250,000 ($\$15,221,000,000 \times 25\%$).

Oversight notes that section 163.431.4.2(b) states the State Treasurer shall transfer eight percent of the moneys appropriated to the school district per-pupil payments fund under paragraph (a) of this subdivision to the classroom trust fund established in section 163.043, to be used solely to supplement, not supplant, moneys used for teacher salaries from the moneys disbursed to school districts under paragraph (e) of this subdivision. Therefore, Oversight will reflect a more or less than \$304,420,000 ($\$3,805,250,000 \times 8\%$) transfer out from School District Per-Pupil Payments Fund to the Classroom Trust Fund based on the FY 2024 budget.

Oversight assumes this proposal creates the School District Per-Pupil Payments Fund and Student Opportunity Savings Account Program Fund. It also includes a transfer of funds to the Classroom Trust Fund. For simplicity, Oversight assumes all funds will be utilized in the year in each they were received.

Officials from the **Office of the State Treasurer (STO)** assume the proposal puts STO in the position of administering funds and parts of the program. The Treasurer's Office does not collect and deposit monies for individual state funds. They are to be administered and managed by other state agencies. The Treasurer's Office holds and invests monies deposited by agencies and tracks monies by fund. STO would require additional FTEs to handle the potential activity.

In addition, the STO states the salary is the base salary for that type of position, the IT and Equipment costs are a range provided by their IT Staff and purchasing staff based on recent purchases of the same nature. The space requirements are based on the latest number provided with the budget by FMDC. Although, in their current suite, this would require large scale renovations or an additional suite. The cost of which would be significantly higher. The future fiscal impact and program growth is unknown.

Oversight notes that section 163.431.4 (5) states the STO may provide a debit card or a similar mechanism to each pupil in the student opportunity savings accounts program to allow each pupil to access moneys in the pupil's student opportunity savings account for qualified educational expenses. Oversight has no way to determine if the STO will choose to provide these to students. Therefore, Oversight will reflect the \$0 to unknown cost to STO in the fiscal note.

Oversight notes the proposal creates a new funding mechanism to distribute funding on a per pupil basis. The language of the proposal refers to placing all money appropriated for education into the new School District Per-Pupil Payments Fund which will be administered under the STO. The STO is required to do significant administrative duties. Oversight will adopt STO's assumption for the number of FTE that will be needed and reflect this in the fiscal note. However, should this assumption be incorrect, this would change the impact presented in this fiscal note.

Responses regarding the proposed legislation as a whole

Officials from **DESE** assume Sections 167.012, 167.013, 167.031, 210.211, and 452.375 would have no fiscal impact on their organization.

Officials from the **Office of the State Courts Administrator (OSCA)** assume there may be some impact but there is no way to quantify that currently. Any significant changes will be reflected in future budget requests.

Officials from the **Department of Higher Education and Workforce Development, Department of Mental Health, Department of Revenue, Department of Social Services, Missouri Senate, Missouri House of Representatives, Missouri Office of Prosecution Services, and Office of the Governor** each assume the proposal will have no fiscal impact on their organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note these agencies.

Officials from the **Attorney General's Office**, and the **Office of Administration – Budget and Planning** did not respond to **Oversight's** request for fiscal impact for this proposal.

Officials from the **Paris R-II School District** state if HB 2937 results in a \$75,000,000 reduction in revenue allocated to the public-school districts of Missouri, this would reduce their state revenue by approximately \$150,000. This loss would potentially require their district to cut 3 and 1.5 aides.

Officials from the **Republic R-III School District** assume from the district's perspective, the district budget impact would be negative. Should they have 50 students participate, they state they would have a net loss of revenue around \$330,000 per year (does not count any gifted or special education students who would get more).

Oversight notes eligible pupils participating in the Student Opportunity Savings Accounts Program will receive a semiannual per pupil payment to the pupil's individual student opportunity savings account for qualified education expenses. Money remaining in the pupil's account will remain and upon graduation may be used for costs related to higher education, trade school, or an in-State first home purchase.

Oversight notes disbursement of per pupil payments by the STO will occur on a monthly basis to school districts and charter schools for any students that attend their resident school district or charter school and are not enrolled in the program. DESE assumed these payments would be in addition to the current payments made to school districts and charter schools as described in current Missouri statute. Oversight is uncertain how the requirements of this proposal will truly impact the local education agencies due to conflicting statutes. Therefore, Oversight will show a \$0 or Unknown (additional payments received) to Unknown (loss in revenue) to school districts.

Officials from the **University of Central Missouri** and **Northwest Missouri State University** both assume the proposal will have no fiscal impact on their organizations.

Oversight received limited responses from school districts, universities, and colleges related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note. Oversight only reflects the responses received from state agencies and political subdivisions; however, school districts, universities, and colleges 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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 \$5,000. 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 its 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
Transfer Out – 25% to School District Per-Pupil Payments Fund	More or Less than (\$3,805,250,000)	More or Less than (\$3,805,250,000)	More or Less than (\$3,805,250,000)
<u>Cost Avoidance</u> - DESE – from loss of spending authority	More or Less than \$3,805,250,000	More or Less than \$3,805,250,000	More or Less than \$3,805,250,000
<u>Costs</u> – DESE/ITSD – programming for data collection and foundation formula	(\$197,316)	(\$40,450)	(\$41,461)
<u>Costs</u> – STO – debit cards to access student opportunity savings accounts 163.431.4 (5)	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Costs</u> – STO			
Personnel Service	(\$350,000)	(\$428,400)	(\$436,968)
Fringe Benefits	(\$260,818)	(\$316,238)	(319,559)
Equipment and Expense	(\$91,667)	(\$51,000)	(\$52,020)
<u>Total Costs</u> – STO	<u>(\$702,485)</u>	<u>(\$795,638)</u>	<u>(\$808,547)</u>
FTE Change - STO	Up to 10 FTE	Up to 10 FTE	Up to 10 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Could exceed <u>(\$899,801)</u>	Could exceed <u>(\$836,088)</u>	Could exceed <u>(\$850,008)</u>
Estimated Net FTE Change on the General Revenue Fund	Up to 10 FTE	Up to 10 FTE	Up to 10 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
SCHOOL DISTRICT PER-PUPIL PAYMENTS FUND			
<u>Transfer In</u> – 25 % from General Revenue	More or Less than \$3,805,250,000	More or Less than \$3,805,250,000	More or Less than \$3,805,250,000
<u>Transfer Out</u> – 8% of appropriation to the Classroom Trust Fund	More or Less than (\$304,420,000)	More or Less than (\$304,420,000)	More or Less than (\$304,420,000)
<u>Transfer Out</u> – to Opportunity Savings Accounts Fund for per-pupil payments	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Transfer Out</u> – to School Districts & Charter Schools	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Transfer Out</u> – to student opportunity savings accounts for qualified educational expenses	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT PER-PUPIL PAYMENTS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
CLASSROOM TRUST FUND			
<u>Transfer In</u> – 8% from the appropriation to the School District Per-Pupil Fund	\$0 or More or Less than \$304,420,000	\$0 or More or Less than \$304,420,000	\$0 or More or Less than \$304,420,000
<u>Transfer Out</u> – to School Districts to supplement teacher salaries	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON THE CLASSROOM TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
STUDENT OPPORTUNITY SAVINGS ACCOUNTS PROGRAM FUND			
<u>Transfer In – from the School District Per-Pupil Fund</u>	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Transfer Out - pupil’s individual student opportunity savings account for qualified education expenses</u>	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT PER-PUPIL PAYMENTS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
SCHOOL DISTRICTS AND CHARTER SCHOOLS			
<u>Costs/Savings – implement provisions of the proposal</u>	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS AND CHARTER SCHOOLS	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (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 the "Student Opportunity Savings Accounts Program". The purpose of the Program is to provide direct payments to "eligible pupils" for "qualified expenses" at an "approved education entity" as those terms are defined in the bill.

The bill establishes two separate funds for the purposes of distribution of the Constitutional requirement that 25% of general revenue be allocated for education. The created funds are entitled the "Student Opportunity Savings Accounts Program Fund" and the "School District Per-

Pupil Payments Fund". The bill requires that 8% of the allocation be distributed directly to the Classroom Trust Fund established in Section 163.043 to supplement teacher salaries.

The remaining allocation will be distributed based on the pupil data provided by the Department of Elementary and Secondary Education to the State Treasurer who will use the pupil data to calculate a per-pupil payment based on the total number of gifted, special education, eligible pupils, and full-time and part-time resident pupils.

Eligible pupils participating in the Program will receive a semiannual per pupil payment to the pupil's individual student opportunity savings account for qualified education expenses. Money remaining in the pupil's account will remain and upon graduation may be used for costs related to higher education, trade school, or an in-State first home purchase.

Disbursement of per pupil payments by the treasurer's office will occur on a monthly basis to school districts and charter schools for any students that attend their resident school district or charter school and are not enrolled in the program. Such per pupil payment amounts will be based on enrollment and weighted for special education and gifted pupils.

Pupils enrolled in the Program must take an annual State approved pupil assessment to satisfy Federal requirements. Requirements for educational entities to be determined as a qualified school are specified in the bill (Section 163.431 RSMo.).

This bill modifies Section 167.037 by removing requirements related to "home school" and creates Section 167.012 with the term "home school" defined. This Section prohibits home school students from participation in the Missouri Empowerment Scholarship Program under Sections 166.700 to 166.720 and the Student Opportunity Savings Account Program created under Section 163.431. The requirements for homes school children remain the same as current statutory requirements and include proof of 1000 hours of regular instruction (Section 167.012).

The bill defines a "family-paced education school" and specifies that students enrolled in a family-paced education school may participate in both the Missouri Empowerment Scholarship Program and the Student Opportunity Savings Account Program. The requirements for family-paced education school children are the same as for home school students with proof of 1000 hours of regular instruction and a daily log requirement (Section 167.013).

This bill modifies current statutes relating to home schools and family-paced education schools for compulsory attendance under Section 167.031, child-care facilities under Section 210.211, and custody issues under Section 452.375.

This legislation is not federally mandated, would not duplicate any other program.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education

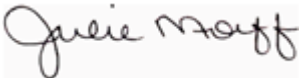
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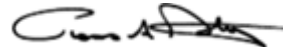
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Department of Higher Education and Workforce Development
Department of Mental Health
Department of Revenue
Office of the Governor
Office of the Secretary of State
Office of the State Treasurer
Joint Committee on Administrative Rules
Office of the State Courts Administrator
Missouri Office of Prosecution Services
Missouri Senate
Missouri House of Representatives
Department of Social Services
Paris R-II School District
Republic R-III School District
University of Central Missouri
Northwest Missouri State University



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March 22, 2024



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