

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0273H.03C
 Bill No.: HCS for HB 711
 Subject: Department of Elementary and Secondary Education; Education, Elementary and Secondary; Children and Minors
 Type: Original
 Date: February 20, 2025

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 2026	FY 2027	FY 2028
General Revenue*	(\$645,246)	More or Less than (\$404,527)	More or Less than (\$403,526)
Total Estimated Net Effect on General Revenue	(\$645,246)	More or Less than (\$404,527)	More or Less than (\$403,526)

*The amount of fiscal impact to the state starting in FY 2027 depends upon the number of students that apply and are accepted to transfer to a different school district (beginning in FY 2027) and whether DESE withholds state aid for transfer improprieties (beginning in FY 2028). 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 2026	FY 2027	FY 2028
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 2027 net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
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 2026	FY 2027	FY 2028
Local Government	\$0	(Unknown) or Unknown	(Unknown) or Unknown

*Oversight notes there will be additional state funding for non-resident transfers but also additional costs in the forms of transportation, special education services, and cost that occur with educating students.

FISCAL ANALYSIS

ASSUMPTION

Sections 167.1200 to 167.1230 - Public School Open Enrollment Act

Officials from the **Department of Elementary and Secondary Education (DESE)** state:

Section 167.1200 creates the "Public School Open Enrollment Act".

Section 167.1205 establishes the public school open enrollment program which would require ITSD services for DESE to collect data from school districts that participate. These ITSD costs would include development of a new application to facilitate the application process for families and school districts. In addition, changes would need to be made to several of DESE's current systems including MOSIS/CORE Data and the foundation formula calculation. Requirements are included throughout the bill that would impact these changes.

Section 167.1210 could have a fiscal impact on the Transportation Foundation payment of the nonresident district if they are required to provide transportation to a transferring student under the guidelines. DESE is unable to estimate these potential costs as the number of students needing transportation and actual allowable costs are unknown. Total transportation costs are dependent upon appropriation.

167.1212 would create the "Parent Public School Choice Fund". The department would be required to evaluate the usage of funds, availability, and need for additional funds annually as part of the budget process. At this time, DESE can absorb these additional duties. However, if multiple pieces of legislation are passed required similar additional duties DESE would seek additional FTE through the appropriations process to meet the new requirements. The impact of this fund would be dependent on appropriation.

Section 167.1227 would require hearings for applications that are rejected by the nonresident school districts. Hearing costs would include hearing officer time for hearing and drafting recommendations, court reporter costs, and administrative time and costs to schedule, provide notice and support staff through the process. DESE estimates costs would not exceed \$100,000 annually.

167.1230 could have an impact on the Transportation and Foundation formulas. These costs would be unknown as they are dependent upon how many students are eligible, how many of those meet the criteria as described and the specific costs that are not able to be reimbursed by the parent public school choice fund.

Duties and requirements for the department outlined throughout the legislation would require

two director level FTEs; one in DESE Office of Data System Management to report data per section 167.1220 and one data steward with within Office of Quality Schools. These individuals would be responsible for ensuring the application process meets the requirements of the legislation, supporting school districts and families throughout the process, assisting with hearings when necessary, providing reporting as required, completing audit requirements and ensuring the program meets the requirements as outlined.

Oversight notes in response to similar legislation, HCS/HB 1989 (2024), DESE provided the following:

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.

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 6,145.20 hours at a contract rate of \$105 for a total cost of **\$645,246** with on-going support costs of **\$132,276** in FY 2027 and **\$135,583** in FY 2028.

Officials from the **Office of the State Treasurer, Department of Social Services, and Department of Mental Health** 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.

In response to the previous version, 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 **Washington School District** assume this bill could impact the district at various levels over the coming years with an estimate of an additional \$1.1mil a year. As a district, they spend about \$13,000 per student with 75% of their revenue coming from their taxpayers. If they have up to 3% additional students per year that only join us at the SAT rate, their per-student spending could impact the district by about \$600,000 per year. In addition, added transportation costs due to a district their size and with the size of their neighboring

district could add \$100,000 per year. Additional staff shifts AND additional staff needs for marketing their district could add up to \$400,00 per year.

In response to the previous version, officials from **Bayless School District** assumed the proposal will have an anticipated impact for the loss of 3% of students using FY25 data (a combination of state and federal sources) is about \$400,000. That could result in the elimination of 5-6 teaching positions.

In response to a previous version, officials from **Osage County R-I School District** assumed the current state adequacy target per student is \$6,650. Prop C per student is estimated at \$1,500 per WADA. Small School Revenue is estimated at \$275 and \$144 per ADA. They estimate that each student who would choose to be unenrolled would cost the district \$8,569. The 3% cap as stated in the bill would be about 5 students. Therefore, the impact could lower revenue by \$42,845.

In response to a previous version, officials from **Lincoln R-II School District** stated the issue that doesn't get addressed is that if just the state foundation formula follows a student to a different public school district (about \$6,700 per student that has 100% attendance), this is less than half the total cost to education for that student (and that is if the student does not have an IEP or needs that require more resources). So, what Open Enrollment basically says is that the receiving district's local taxpayers would be required to cover the rest of the shortfall to educate that student. The average cost to educate a student in Missouri is \$15,915.

In response to a previous version, officials from the **Green Forest R-III School District** assumed each student that leaves the district would result in a reduction of \$4,264. They are a small K-8 with just under 160 students. If they were to lose just 5% of their student population they would be losing \$34,112 in state payments. This would result in a cut to staff and reduced services for the students in their building. Calculations were determined using their current payment information that can be found in the data portal on the DESE website. Their current WADA is 230 and they receive \$980,781 in basic formula monies. This equates to \$4,264 that they receive for each resident student.

In response to a previous version, officials from **Concordia R-II School District** assumed at a minimum will cost approximately \$15,000-20,000 per year for students who transfer out. For incoming transfers, the cost is more because the District's current non-resident tuition rate is \$14,816. If they accepted 13 nonresident students (or 3% of current estimated enrollment for the 25-26 school year), the District would receive \$192,608 which fully funds their education. However, this bill only provides for foundation formula funding of \$6,760 (at best) for students and that would be approximately \$87,880. That is not sufficient to ensure needed staffing as well as operating costs for an additional 13 students.

In response to a previous version, officials from **Parkway Schools** assumed the addition of each non-resident student would contribute a maximum of only \$734 to Parkway's state revenue. The district's funding is primarily reliant on local tax revenue. As a result, enrolling non-resident would increase costs that local tax revenue and local tax payers would bear, since the district's state funding is insufficient to fully meet the new non-resident per-pupil expenditures. Parkway would incur an estimate of \$12,999 expenses per non-resident enrolled student.

In response to a previous version, officials from **Pilot Grove C-4 School District** assumed the Pilot Grove C-4 School District could have the following negative fiscal impact. Currently their September membership shows a district enrollment of 200 students. If HB 711 passes and their district were to lose 3% of their current membership in the following school year due to students being able to leave and enroll in other non-resident districts this could mean 6 students leaving their school district. If Pilot Grove C-4 School District lost 3% or 6 total students; the cost would be roughly \$110,000 to \$120,000. This is the equivalent of needing to cut at least 2 teachers from my staff of 29 teachers. This would result in a total annual operating budget loss of 3% for the Pilot Grove C-4 School District.

In response to a previous version, officials from **Republic R-III School District** assumed should the Republic School District choose to participate, they would have to hire an additional FTE to keep track of this whole process and what they have to do. Additionally, they believe their district would have to hire additional special education staff as families from smaller surrounding districts may want to have access to more services a larger district can provide. they believe Republic School's would need an additional \$250,000 in personnel if they said that they would participate. They also think that ALL districts across the state would be on the hook for transportation costs of students who do want to transfer. Therefore, even if they choose not to participate, they would still end up losing money in transportation the way the Bill reads.

Republic R-III also notes, this Bill is so complicated. Right now, DESE has a hard time servicing school districts and this increased work load looks enormous on their part. they don't see how one department at the state level who is already understaffed is going to keep all of this straight. After reading through the Bill, they would recommend to their Board that they not participate.

In response to similar legislation, 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 similar legislation, 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 similar legislation, 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 similar legislation, 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 similar legislation, HB 543 (2021), officials from the **Springfield Public Schools** estimated a cost of \$150,000 annually.

In response to similar legislation, 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 similar legislation, 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 similar legislation, HB 2310 (2020), officials from the **Shell Knob School District** assumed this would have a negative fiscal impact.

In response to similar legislation, HB 2310 (2020), officials from the **Wellsville- Middletown R-I 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 2026-2027 school year (FY 2027). 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 \$0 to unknown appropriation from the General Revenue fund to the new Parent Public School Choice Fund (§167.1212.1) in FY 2027 (Section 167.1230.2 states the appropriate sections shall become effective July 1, 2026). 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 similar legislation, 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 2027.

Oversight will show cost estimated by DESE for two FTE (Directors) along with associated benefits, and E&E costs to conduct audits and perform other duties required by the proposal.

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 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE			
<u>Costs</u> - OA-ITSD - foundation formula changes p.4	(\$645,246)	(\$132,276)	(\$135,583)
<u>Transfer Out</u> – to the Parent Public School Choice Fund §167.1212.1 - p.6	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Costs or Cost Avoidance</u> – Difference in state funding for resident district and nonresident district for transferring students §167.1205 & §167.1210 - p.6	\$0	(Unknown) or Unknown	(Unknown) or Unknown
<u>Costs</u> – DESE – to conduct hearings on appeals §167.1227 p.8	\$0	(\$5,666)	(\$5,666)
<u>Costs</u> - DESE - to conduct annual audits & other duties of proposal – p.3			
Personnel Service	\$0	(\$152,608)	(\$155,660)
Fringe Benefits	\$0	(\$92,749)	(\$92,749)
Expense & Equipment	\$0	(\$21,228)	(\$13,868)
<u>Total Costs – DESE</u>	\$0	(\$266,585)	(\$262,277)
FTE Change	0 FTE	2 FTE	2 FTE
<u>Savings</u> - DESE may withhold state aid for transfer improprieties identified by an audit - §167.1229 - p.6	\$0	\$0	\$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$645,246)</u>	More or Less than <u>(\$404,527)</u>	More or Less than <u>(\$403,526)</u>
Estimated Net FTE Change on General Revenue	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
PARENT PUBLIC SCHOOL CHOICE FUND			
<u>Transfer In</u> – from General Revenue	\$0	\$0 or Unknown	\$0 or Unknown
<u>Expenditures</u> – to parents/students or school districts for costs of transportation	\$0	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE PARENT PUBLIC SCHOOL CHOICE FUND	\$0	\$0	\$0

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
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) p.3	\$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 p.8	\$0	\$0	\$0 or (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	<u>\$0</u>	(Unknown) or <u>Unknown</u>	(Unknown) or <u>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.

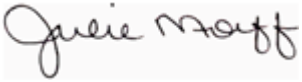
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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
- Department of Mental Health
- 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
- Bayless School District
- Concordia R-II School District
- Green Forest R-II School District
- Lincoln R-II School District
- Osage Co. R-I School District
- Parkway School District

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Pilot Grove C-4 School District
Republic R-III School District
Washington School District



Julie Morff
Director
February 20, 2025



Jessica Harris
Assistant Director
February 20, 2025