COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1832H.01I
Bill No.: HB 712
Subject: Education, Elementary and Secondary; Department of Elementary and Secondary Education; Teachers; Retirement - Schools
Type: Original
Date: February 4, 2025

Bill Summary: This proposal modifies provisions governing student grade-level equivalence data, teacher salaries, and substitute teachers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2029)
General Revenue*	($1,038,002)	($21,620)	($22,616)	Up to $1,295,630
Total Estimated Net Effect on General Revenue	**($1,038,002)**	**($21,620)**	**($22,616)**	**Up to $1,295,630**

*__Oversight__ notes in order for the Department of Elementary and Secondary Education to meet the requirements of this proposal they will need to develop and revise performance level descriptors, related assessments, notifications, and meetings that will exceed the $250,000 threshold. Furthermore, the proposal will eliminate the up to 3% CPI starting in FY 2029 which results in a savings that will exceed the $250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2029)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2029)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2029)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**$0**

☒ 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	Fully Implemented (FY 2029)
Local Government*	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**	**Less than $1,295,630**

***Oversight** notes the proposal will eliminate the up to 3% CPI increase starting in FY 2029 which results in a savings that will exceed the $250,000 threshold.

FISCAL ANALYSIS

ASSUMPTION

Section 160.522 – Student Grade-Level Equivalence Data

Officials from **Department of Elementary and Secondary Education (DESE)** assume to revise performance-level descriptors and define grade-level equivalence therein, the department would need to conduct on-site review/revise meetings with panelists – meeting costs and stipends for six meeting days with 160 panelists [Four grade-span groups (primary, elementary, middle school, high school) of 10 participants in each of four subjects (mathematics, English language arts, science, social studies).] representing various regions of the state. $587,040 for all review/revise meetings.

Contractor facilitation of review/revise meetings and generation of new performance level descriptors (PLDs) that define range, threshold and are suitable for reporting. $65,500 for two years in order to follow up on all requirements.

Psychometric and measurement work to incorporate five new PLDs into the prior four PLD structure. $175,000

Revise building, district and statewide assessment reporting; revise individual student reports (ISRs) and related material. $100,000

Costs associated with statute-required notifications and public meetings upon revision of the MSIP 6 Comprehensive Guide. $5,000

DESE's Office of Data System Management (ODSM) will be involved with the collection of data and reporting including the searchable engine. DESE estimates 20 hours total for time to test and deploy report card changes post ITSD services. The position responsible for the work is a Research Analyst position. At this time DESE can absorb these duties, however, if multiple pieces of legislation are passed that require additional duties that lead to additional FTE needed DESE will seek approval for the needed FTE through the appropriations process.

Oversight notes DESE shall establish panels to review and revise the performance-level descriptors for each academic subject and grade level. The proposal states for the 2026-27 (FY27) school year and all subsequent school years, the school accountability report card shall include information about each student's grade-level equivalence as outlined in the proposal. For simplicity, **Oversight** will show the total costs as estimated by DESE ($932,540) in FY26.

Officials from the **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. This project would have to be prioritized by DESE to be worked among DESE's other projects. ITSD assumes the Report Card is a set of data processes (ETLs) that gather data that DESE has collected from districts using the MOSIS application/system. These ETL's will need modified to handle the changes required in this legislation. ITSD estimates the project would take 1,004.40 hours at a contract rate of $105 for a total cost of $105,462 in FY26 with on-going support costs of $21,620 in FY27, $22,161 in FY28 and $22,715 in FY29.

Oversight will show the costs as estimated by OA-ITSD.

In response to similar legislation, HB 371 (2025), officials from the **Washington School District** assumed the financial impact would be for additional training for staff on the new classifications, $5000 for the first year.

In response to similar legislation, HB 371 (2025), officials from the **Osage County R-I School District** assumed the proposal will have no fiscal impact on their organization.

Oversight does not anticipate a measurable fiscal impact to school districts; therefore, Oversight will reflect a zero impact in the fiscal note.

<u>Section 163.172 Baseline Teacher Salary</u>

Officials from **DESE** assume section 163.172 makes changes to the Teacher Baseline Salary Program. This would remove the CPI increases beginning in FY 2029 that were added in SB 727 (2024). This would create a savings if school districts are no longer required to increase salaries by CPI.

Oversight has provided the information on the table below with data provided from DESE in SB 727 (2024):

Required salary increases with CPI:

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Base Salary	28,811,529	28,811,529	28,811,529	29,675,875	30,566,151	31,483,136
Base Benefits (16% of Salary)	4,609,845	4,609,845	4,609,845	4,748,140	4,890,584	5,037,302
Subtotal	**33,421,374**	**33,421,374**	**33,421,374**	**34,424,015**	**35,456,735**	**36,520,437**
Masters 10+	4,978,995	6,792,725	9,071,959	9,344,118	9,624,441	9,913,175
Masters 10+ Benefits (16% of Salary)	796,639	1,086,836	1,451,513	1,495,059	1,539,911	1,586,108
Subtotal	5,775,634	7,879,561	10,523,472	10,839,177	11,164,352	11,499,282
Total	**39,197,008**	**41,300,935**	**43,944,846**	**45,263,191**	**46,621,087**	**48,019,720**

Oversight assumes this proposal repeals a provision in the Grant Program where school districts can apply to DESE for a grant of money to assist school districts in increasing the minimum teacher salaries. The repealed section accounts for inflation up to 3% that was to start in FY 2029.

Oversight has calculated the fiscal impact in the table below with data provided from DESE:

Required salary increases without CPI:

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Base Salary	28,811,529	28,811,529	28,811,529	28,811,529	28,811,529	28,811,529
Base Benefits (16% of Salary)	4,609,845	4,609,845	4,609,845	4,609,845	4,609,845	4,609,845
Subtotal	**33,421,374**	**33,421,374**	**33,421,374**	**33,421,374**	**33,421,374**	**33,421,374**
Masters 10+	4,978,995	6,792,725	9,071,959	9,071,959	9,071,959	9,071,959
Masters 10+ Benefits (16% of Salary)	796,639	1,086,836	1,451,513	1,451,513	1,451,513	1,451,513
Subtotal	5,775,634	7,879,561	10,523,472	10,523,472	10,523,472	10,523,472
Total	**39,197,008**	**41,300,935**	**43,944,846**	**43,944,846**	**43,944,846**	**43,944,846**

Oversight notes the savings by removing the CPI increases beginning in FY 2029 below:

	FY 2029	FY 2030	FY 2031
Cost With CPI	45,263,191	46,621,087	48,019,720
Cost Without CPI	43,944,846	43,944,846	43,944,846
Difference	**1,318,345**	**2,676,241**	**4,074,874**

Oversight notes the savings to General Revenue are **$1,318,345** in FY 2029, **$2,676,241** in FY 2030 and **$4,074,874** in FY 2031. Oversight will reflect the estimated impact in FY 2029 to General Revenue as well as school districts in the fiscal note.

Section 168.036 - Granting Substitute Teacher Certificates

Officials from **Public Education Employees' Retirement System (PSRS/PEERS)** assume this bill, as currently drafted, extends the temporary provision allowing individuals who are receiving a retirement benefit from PSRS or PEERS to substitute teach on a part-time or temporary substitute basis in a covered school district without a discontinuance of the person's retirement benefit. The provisions in this bill only apply to part-time or temporary substitute teaching. As specified in this bill, if an individual chooses to work for a covered employer after retirement under this provision, they will not contribute to additional retirement benefits.

This provision was enacted in 2022 with an expiration of June 30, 2025. This bill extends the temporary provision through June 30, 2030.

The Systems have an actuary firm, PwC US (PwC), that prepares actuarial cost statements on any proposed legislation as well as the annual actuarial valuation reports for the Systems. As discussed in more detail below, the temporary suspension of the working after retirement limitations as proposed in this bill could have a fiscal impact on PSRS and PEERS.

<u>Analysis of impact on PSRS</u>
The 550-hour and 50% of compensation limitations applicable to retired PSRS members who return to work in substitute teaching positions is significantly less than half of the capacity worked by a fulltime teacher and therefore limits the work a rehired retiree can perform in a substitute teaching position without a suspension of their benefit. Suspending these limitations through June 30, 2030 could incentivize existing PSRS members to significantly change their retirement behavior and career planning. In addition, an extension of the working after retirement limits suspension would give employers a greater ability to replace full-time active employees with rehired retirees, allowing employers to save on the cost of contributions to PSRS (for part-time or temporary substitute teaching positions). Such behavior could have a significant impact on the cost of PSRS as earlier retirement by active members could increase the Actuarial Accrued Liability, and therefore the Unfunded Actuarial Accrued Liability, and result in a decrease in covered payroll which would increase the Actuarially Determined Contribution Rate.

However, HB 712 does include some conditions that would limit the fiscal impact, including:

- The end date for suspension of the working after retirement limitations of June 30, 2030 would limit any changes in retirement behavior and any changes in employer hiring to a temporary period (absent further extensions).
- Retirees who return to work in substitute teaching positions would only be able to return on a part-time or temporary basis, not on a full-time basis.

In addition, current statistical data on retired PSRS members who have returned to work since the temporary suspension of the limits went into effect in 2022 has been reviewed. The COVID pandemic and other legislation affecting working after retirement make it difficult to conclude from the data whether retirement patterns have been affected by the current suspension. However, to date, it does not appear to indicate a significant change in retirement behavior by members or hiring practices by employers as the number of retirees working after retirement remains below pre-pandemic levels. However, there is a recent increase in the average hours worked and average earnings by retirees who have returned to work due to some rehired retirees working in a capacity that would have exceeded the limitations of RSMo 169.560 if not for the suspension of those limits for part-time or temporary substitute teaching in RSMo 168.036.

For the reasons noted above and discussed in the actuarial cost estimate, PwC estimates the impact of extending the suspension of limitations on working after retirement for parttime or temporary substitute teaching positions through June 30, 2030 to be **an insignificant fiscal impact if retirement behavior remains unchanged**. However, there would be a fiscal cost if there is a change in active member retirement behavior to retire earlier, resulting in fewer full-time teachers participating in, and contributing to, PSRS, and they continue to caution that the fiscal impact could be significant if the suspension of the limitations continues to be extended and effectively becomes a permanent provision.

<u>Analysis of impact on PEERS</u>
The 550-hour limitation applicable to retired PEERS members who return to work in substitute teaching positions is significantly less than half of the capacity worked by a full-time employee and therefore limits the work a rehired retiree can perform without a suspension of their benefit. Suspending these limitations through June 30, 2030 for part-time or temporary substitute teaching positions could incentivize existing PEERS members to significantly change their retirement behavior and career planning. In addition, an extension of the working after retirement limits suspension would give employers a greater ability to replace full-time active employees with rehired retirees, allowing employers to save on the cost of contributions to PEERS (for part-time or temporary substitute teaching positions). Such behavior could have a significant impact on the cost of PEERS as earlier retirement by active members could increase the Actuarial Accrued Liability, and therefore the Unfunded Actuarial Accrued Liability, and result in a decrease in covered payroll which would increase the Actuarially Determined Contribution Rate.

However, HB 712 does include some conditions that would limit the fiscal impact, including:

- The end date for suspension of the working after retirement limitations of June 30, 2030 would limit any changes in retirement behavior and any changes in employer hiring to a temporary period (absent further extensions).
- Retirees who return to work in substitute teaching positions would only be able to return on a part-time or temporary basis, not on a full-time basis.
- The number of PEERS retirees who are certificated and eligible to fill substitute teaching positions has historically been very few.

In addition, current statistical data on retired PEERS members who have returned to work since the temporary suspension of the limits went into effect in 2022 has been reviewed. The COVID pandemic and other legislation affecting working after retirement make it difficult to conclude from the data whether retirement patterns have been affected. However, to date, it does not appear to indicate a significant change in retirement behavior by members or hiring practices by employers, or an increase in the number of PEERS retirees being hired to fill part-time or temporary substitute teaching positions.

For the reasons noted above and discussed in the actuarial cost estimate, PwC estimates the impact of extending the suspension of limitations on working after retirement for parttime or temporary substitute teaching positions through June 30, 2030 to be **an insignificant fiscal impact to PEERS**. However, they continue to caution that the fiscal impact could be significant if the suspension of the limitations continues to be extended and effectively becomes a permanent provision.

PSRS/PEERS provide retirement benefits to approximately 132,000 active members and over 110,000 retired Missouri public school teachers, school employees, and their families. The total invested assets of both PSRS and PEERS were $58.7 billion as of June 30, 2024.

Oversight notes this provision was enacted in 2022 with an expiration of June 30, 2025. This proposal extends the temporary provision through June 30, 2030. Therefore, Oversight assumes the temporary change will result in an insignificant fiscal impact to PSRS/PEERS and therefore, no impact to member employers.

Officials from the **Joint Committee on Public Employee Retirement** assume the provision will have no fiscal impact on their organization.

Oversight received no responses from school districts 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 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.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2029)
GENERAL REVENUE				
Savings – DESE – elimination of 3% of CPI to teachers - §163.172 p.5	$0	$0	$0	Up to $1,318,345
Costs - DESE - to develop and revise performance level descriptors, related assessments, notifications and meetings - §160.522 p.3	($932,540)	$0	$0	$0
Costs - DESE/OA-ITSD - changes to MOSIS application - §160.522 p.4	($105,462)	($21,620)	($22,161)	($22,715)

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2029)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**($1,038,002)**	**($21,620)**	**($22,616)**	**Up to $1,295,630**
TEACHER BASELINE SALARY GRANT FUND				
Reduced Transfer Expenditure – from General Revenue – §163.172 p.5	$0	$0	$0	Up to ($1,318,345)
Cost Avoidance – to School Districts - §163.172 p.5	$0	$0	$0	Up to $1,318,345
ESTIMATED NET EFFECT ON THE TEACHER BASELINE SALARY GRANT FUND	**$0**	**$0**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2029)
PUBLIC SCHOOLS				
Savings – elimination of up to 3% of CPI to teachers - §163.172 p.5	$0	$0	$0	Up to $1,318,345
Cost – unknown impact on employer contribution rates by extending retirement benefits - §168.036 p.6	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON PUBLIC SCHOOLS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**	**Less than $1,318,345**

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill defines "Grade-level equivalence", a metric developed and used by the Department of Elementary and Secondary Education (DESE) to show a student's proximity to doing grade-level work, and requires DESE to establish panels to review and revise the performance-level descriptors for each academic subject and grade level. The bill identifies and describes the performance level descriptors as: advanced, proficient, grade level, basic, and below basic, with specified characteristics for each level.

Beginning in the 2026-27 school year and in each subsequent year the school accountability report card must provide each student's grade-level equivalence as measured on the statewide assessment. Data relating to the grade-level equivalence must be searchable on a building-by-building, school-by-school, district-by-district, and statewide level. The data must display a percentage of students at grade level or above for each level, provided that no data will disclose personal identification of any student except to a student's parent (Section 160.522 RSMo.).

The bill removes the inflationary increase for the minimum teacher salary (Section 163.172).

This bill extends the authorization for teachers that are retired to substitute teach without a discontinuance of the teacher's retirement benefit. This authorization was set to expire in 2025 and the bill moves that to 2030 (Section 168.036).

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
Public Education Employees' Retirement System
Joint Committee On Public Employee Retirement
Washington School District
Osage County R-I School District

Julie Morff
Director
February 4, 2025

Jessica Harris
Assistant Director
February 4, 2025

GS:LR:OD