

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5879-02
Bill No.: HCS for HB 1740
Subject: Elementary and Secondary Education Department; Boards, Commissions, Committees, Councils; Elementary and Secondary Education Department
Type: Original
Date: February 27, 2012

Bill Summary: This proposal modifies provisions relating to school operations.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|--|--|---|
| FUND AFFECTED | FY 2013 | FY 2014 | FY 2015 |
| General Revenue | (\$499,809) to \$29,099,667 | (\$488,289) to \$29,116,657 | (\$214,598,722 to \$244,204,385) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (\$499,809) to \$29,099,667 | (\$488,289) to \$29,116,657 | (\$214,598,722 to \$244,204,385) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 25 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2013 | FY 2014 | FY 2015 |
| State School Moneys Fund* | \$0 | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds* | \$0 | \$0 | \$0 |

*Offsetting Savings/Transfers In and Loss/Transfers Out are \$69,539,029 in FY 13, \$69,439,029 in FY 14, and \$313,152,096 in FY 15

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2013 | FY 2014 | FY 2015 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2013 | FY 2014 | FY 2015 |
| General Revenue | 5 FTE | 5 FTE | 5 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 5 FTE | 5 FTE | 5 FTE |

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

LMD:LR:OD

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------------------------|------------------------------|---------------------------------------|
| FUND AFFECTED | FY 2013 | FY 2014 | FY 2015 |
| Local Government | \$0 to (\$69,539,029) | \$0 to (\$69,439,029) | \$174,931,990 to \$243,713,067 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Missouri Senate** state this proposal either has no fiscal impact as it relates to their agency or minimal costs which can be absorbed by present appropriations.

Officials from the **Department of Higher Education** responded that this proposal would have no direct foreseeable fiscal impact on their agency.

Officials from the **State Tax Commission, the Department of Insurance, Financial Institutions and Professional Registration, Office of the State Treasurer, and the Administrative Hearing Commission** state this proposal will have no fiscal impact on their respective agencies.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. BAP deferred to the Department of Elementary and Secondary Education on the fiscal impact of all the education sections in this proposed legislation.

§135.712 - 135.719 - Passport Scholarship Program

§135.713.3

Officials from BAP state the amount of tax credits available for this program in §135.713.3 is \$40.0 million, with allowances to adjust annually based on the consumer price index. This proposal could therefore lower general and total state revenues by that amount.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume that these sections appear to enact a tax subsidy which in any one fiscal year shall not exceed \$40 million dollars. Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

According to officials from the **Department of Economic Development (DED)**, this proposal establishes the Passport Scholarship Program to be administered by the DED's Division of Business and Community Services. The cumulative amount of tax credits which may be allocated in any one fiscal year is capped at \$40 million. Any taxpayer who makes a qualified contribution to a qualified educational assistance organization may claim a 60% tax credit based on the amount of the qualified contribution. Tax credits may be carried forward and transferred or sold.

DED assumes an unknown negative impact over \$100,000 as a result of the proposal. DED would require one additional FTE to administer the program due to the anticipated amount of administration involved. The FTE would be an Economic Development Incentive Specialist III and be responsible for reviewing and approving the applications for the program to determine eligibility, establishing procedures, and ensuring compliance with the program.

Oversight assumes that donations of \$66,666,667 could be accepted to equal \$40 million in credits. DED is entitled to charge and receive no more than two percent of the qualifying contributions received by any educational assistance organization (\$1,333,333) for the department's marketing and expenses or the costs incurred in administering the program, whichever is less.

ASSUMPTION (continued)

Officials from the **Department of Revenue - Division of Taxation (DOR)** estimated the following fiscal impact to DOR resulting from §135.713 of this proposed legislation:

Personal Tax:

The proposal creates a tax credit that can be carried forward for four years, sold, transferred, or assigned. DOR would need one (1) Revenue Processing Technician per 6,000 credits claimed.

Corporate Tax:

The proposal creates a new tax credit to be applied to chapter 143 and 147 taxes. DOR would need one Revenue Processing Technician I (Range 10 Step L) per 6,000 additional tax credit redemptions. DOR would also need CARES equipment and license.

Oversight assumes DOR could administer the provisions of this proposal with existing resources or request additional staff through the budget process if the volume of tax credits warrants.

DOR also assumes this proposal would reduce state revenues.

§135.416.5

Officials from BAP state this section allows the DED to charge an administrative fee of up to 2% of the qualifying contributions received or the costs incurred for administering the program, whichever is less. This provision will increase total state revenue.

Oversight has made the following assumptions regarding the transfer of students from unaccredited school districts to accredited districts or private schools:

Saint Louis

| | |
|-------------------------------------|----------------|
| Average Daily Attendance | 20,880 |
| State Funding (as of January, 2012) | \$136, 375,704 |
| State Funding per ADA | \$6,531 |

ASSUMPTION (continued)

Riverview Gardens

| | |
|-------------------------------------|---------------|
| Average Daily Attendance | 5,466 |
| State Funding (as of January, 2012) | \$35, 015,958 |
| State Funding per ADA | \$6,406 |

Kansas City

| | |
|-------------------------------------|---------------|
| Average Daily Attendance | 14,052 |
| State Funding (as of January, 2012) | \$106,374,197 |
| State Funding per ADA | \$7,570 |

Assuming 50% of the students opt to transfer out of the unaccredited school district and 50% of those student elected to attend private schools using the Passport Scholarship Program, a savings of \$69,439,029 result in school funding needs. If 25 % of the students opted to transfer out of the unaccredited school district and 25% of those students would attend private schools, the savings would total \$17,360,559.

Oversight assumes a range in savings to General Revenue between \$17,360,559 to \$69,439,029 as a result of this proposed legislation. The maximum potential savings of \$69,439,029 assumes that the proposal would actually result in a reduced payment from the state to the local school districts and not just a change in the distribution of the same amount of funds. It also assumes that all of the students who receive a scholarship through this program had been enrolled in the public school system, and now will be attending a private institution. For fiscal note purposes only, **Oversight** will assume that 50% of the students will opt to transfer out of the unaccredited school district and 50% of those students will attend private schools.

Oversight is not able to determine if there would be staff reductions, closing of buildings, reduction in transportation costs or other savings that would occur as a result of this proposed legislation.

Officials from the **Special School District of St Louis County (SSD)** assume that the foundation formula funding would be reduced by the amount of the "Passport" scholarships of \$40 million as state revenue would be reduced dollar for dollar by the issuance of tuition tax credits. As such, the negative impact on the SSD is estimated to be \$500,000 per year or a reduction of about 1.5% in the formula funding to SSD.

ASSUMPTION (continued)

§135.717

Officials from the **Joint Committee on Education (JCE)** state the directives given their agency in this section can be accomplished through the scope of their current responsibilities.

§29.205; §160.400-160.425 - Charter Schools

§29.205

Officials from the **Office of State Auditor** state this section will have no fiscal impact on their agency.

§160.400 - 160.425

Officials from the **Missouri House of Representatives** state this proposal will have no fiscal impact on their agency.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** anticipate no fiscal impact resulting from this proposed legislation.

Officials from the **Department of Senior Services - Children's Division** and **Division of Youth Services** stated there would be no fiscal impact on their respective divisions.

Officials from the **Office of the Governor** assume there should be no added cost to the Governor's Office as a result of this proposed legislation. However, if additional duties are placed on the office related to appointments in other Truly Agreed To and Finally Passed legislation, there may be the need for additional staff resources in future years.

Officials from the **Department of Elementary and Secondary Education (DESE)** provided the following assumptions and fiscal impact regarding this proposed legislation:

§160.400

§160.400.2 (3) (4) (5) - Allows for sponsorship of charters in unaccredited and provisionally accredited school districts and accredited school districts to have charter schools sponsored by the district increasing the total number of charter schools.

ASSUMPTION (continued)

§160.400.3 (2) (3) (4) (5) - Adds sponsors from public 4 year college/universities, in-state private college/universities, 2 year private vocational schools and community colleges, increasing the number of sponsors statewide.

Responsibilities associated with sponsors include:

- 106.400.12 - Oversee sponsors annual report submittals to joint committee on education;
- 106.400.17(6) - Provide guidance to sponsors in developing policies and procedures;
- 106.400.18(1) - Evaluate sponsors to determine compliance with standards every 3 years;
- 106.400.18(2) - Notify/oversee remediation of noncompliant sponsors prior to public hearing;
- 106.403. (1) (2) (3) (4) - Establish annual application and approval process for new sponsors by January 1, 2013, accept applications submitted to the Department by April 1st every year for review, notify sponsor applicants by July 1 of authority to be a sponsor, and execute contract for new sponsor.

§160.405

§160.405.6 (1) and (2) - Provides that DESE will approve alternative arrangements to obtain high school credit and conduct a study of any charter school granted alternative arrangements for credit every 3 years.

§160.405.8 (4) - The final decision of a sponsor revoking a charter would go to the state board of education rather than judicial review.

§160.417

This section requires **DESE** to review the information required by §162.821 to identify charter schools experiencing financial stress. This information would be sent to specific state government officials identified in the proposal. In addition, charter schools that are identified as financially stressed will submit to DESE a budget and education plan to ensure that adequate educational services to students of the charter school shall continue uninterrupted.

ASSUMPTION (continued)

DESE has projected a minimum of 5.0 FTE to implement the responsibilities associated with the Passport Scholarship Program (3.5 supervisors and 1.5 administrative assistant).

Oversight assumes the duties outlined in the proposal can be performed with 3 FTE supervisors and 1 FTE administrative assistant. Should the duties require more FTE, they can requested through the appropriations process. **Oversight** has, for fiscal note purposes only, adjusted the salary and benefits of the supervisors and administrative assistant to correspond with the starting salary posted by DESE for a similar positions.

§160.425

DESE is required to provide start-up funding for the Missouri Charter Public School Commission that would be reimbursed from any funds the commission receives as sponsor. This would require DESE to provide start-up funding as early as August, 2012. The first time the Commission would be eligible to receive funds would be November, 2013. The amount received during the 2013-14 school year would be minimal since the commission would only be approving charter applications for 4 months the previous year. More funding would be available starting in November, 2014; but it would be November, 2015, before the commission would be close to covering their expenses. At that point, reimbursement for the previous fiscal years would still be a burden to repay DESE.

| | |
|-----------------------|-----------|
| School year 2012-2013 | \$300,000 |
| School year 2013-2014 | \$150,000 |
| School year 2014-2015 | \$150,000 |

Oversight assumes this section of the proposal does not provide for additional staff. Current legislation also caps the amount of funding retained for the expenses associated with sponsorship of charter schools at \$125,000. For fiscal note purposes, Oversight will assume one-time cost for FY 13 as (\$125,000).

Officials from the **Department of Health and Senior Services (DOHSS)** state that, according to information obtained from DESE, there are currently 41 charter schools in Missouri. The number of new charter schools that might arise as a direct result of this legislation is unknown, although the expectation is that the number would be minimal. The schools are chartered for a minimum of five years, and the number of board members ranges from 5 to 30, with the average number being 10. For the 2010-2011 school year, the total staff size of the 41 schools was 2,100 FTE (certificated and non-certificated). All staff members will be required to be registered

ASSUMPTION (continued)

and screened through the Family Care Safety Registry. During the first year, it is assumed that 2,100 registrations and background screenings will be conducted on school staff members and that none of the school staff members are currently registered with the Family Care Registry. Background screenings for school staff members must be conducted annually. A two percent growth factor for subsequent year registrations has been included in the estimates.

DOHSS assumed during the first year that 410 (41 schools times an average of 10 board members) registrations and background screenings will be conducted on board members, assuming that none of the board members are currently registered with the Family Care Safety Registry. Since the charters last for a minimum of five years, it is assumed that the maximum number of additional background screenings for board members in subsequent years would be 82 (410/5).

Given the following assumptions, DOHSS predicts the following FTE needs:

- One HPR-I/II FTE can process 12,000 manual registrations in a year.
- One HPR-I/II FTE and .5 OSA FTE can process 12,000 manual background screenings in a year.

Additional FTE needs are minimal, therefore DOHSS will not request additional staff related to this proposed legislation.

DOHSS assumes the proposed legislation would result in an estimated 2,510 new registrations in the Family Care Safety Registry for charter school staff and board members in FY 2013, 124 in FY 2014, and 125 in FY 2015. For each registration, \$10 is collected, resulting in \$25,100 in revenue in FY 2013, \$1,240 in FY 2014, and \$1,250 in FY 2015. This money will be collected by DOHSS and deposited into the Highway Patrol Criminal Records Fund.

DOHSS estimates related postage costs of \$2,636 for FY 13; \$1,600 for FY 13; \$1,631 for FY 15.

Oversight assumes, after verification from a charter school sponsor, that the background checks and registrations in the Family Care Safety Registry are already being done. **Oversight** will assign no revenue for the Highway Patrol Criminal Records fund and will also assume minimal postage costs that can be absorbed with existing appropriations.

ASSUMPTION (continued)

According to officials from the **University of Missouri System** (Charter School Sponsor), it would take, at a minimum, 1.0 FTE to develop, implement and monitor the provisions outlined for charter schools in this proposed legislation. For the four campuses, the estimated cost would be \$80,000.

In response to the introduced version of HB 1228, officials from the **University of Central Missouri (UCM)** - (Charter School Sponsor) estimated \$80,000 increased costs for the first year, and \$50,000 increased costs for each subsequent year to fulfill new requirements for sponsors including:

- an annual report from charter school sponsors to the Joint Committee on Education demonstrating statutory compliance related to oversight,
- additional criteria for oversight of charter schools related to school closure and schools experiencing financial stress,
- development of new policies related to oversight of charter schools, and
- an annual application for charter sponsorship.

After the first year, due to the number of schools sponsored by UCM, estimates of at least \$50,000 annually would be necessary to cover the cost of additional staff member or a consultant, mileage, postage, and operational costs associated with increased oversight responsibilities.

Officials from **Kansas City Metropolitan Community College** and **University of Missouri - St Louis** (Charter school sponsors) indicated no fiscal impact.

In response to a similar proposal from last year (HB 473 - FN 963-02), charter school sponsors responded:

Saint Louis University (SLU): SLU anticipated neither positive nor negative fiscal impact.

University of Missouri - Kansas City (UMKC): This proposal would increase the work load of a sponsor. UMKC would be able to handle the new work load, but this may not be the case for some of the smaller (student enrollment) sponsors. The UMKC Charter School Center estimated the implementation cost of \$75,000 for the 2011-2012 school year.

ASSUMPTION (continued)

Based on responses from current charter school sponsors, **Oversight** assumes the costs associated with this proposed will be (Unknown - Could exceed \$100,000).

Officials from the following colleges and universities that are not currently charter school sponsors stated this proposal would have no fiscal impact on their respective institutions: **Northwest Missouri State University, Missouri State University, Missouri Western State University, and Linn State Technical College.**

The following responses were received for the introduced version of HB 1228 (FN 4158-01):

Missouri Southern State University and **Harris-Stowe State University** stated this proposal would have no fiscal impact.

Officials from the **Mexico School District** stated no fiscal impact can be determined at this time.

Officials from the **Parkway School District (PSD)** did not anticipate any direct cost from this proposed legislation. PSD assumes any new funds required to support additional charter schools would reduce funding available to existing public school districts through the school foundation formula.

Officials from the city of **Kansas City** stated no fiscal impact resulting from this proposal.

§162.081 -Alternative governing structure for failing school districts.

Officials from the **Office of the Governor** assume there should be no added cost to the Governor's Office as a result of this proposed legislation.

Officials from the **Missouri House of Representatives** indicated no fiscal impact resulting from this proposal.

DESE assumes there would be no additional cost to the state under these provisions. The revenue flow to the district would not be altered and modifying the governance structure would not increase the cost of the operation of the district. All actions taken by the State Board would be within the normal business operations of the State Board. The changes in governance structure would be covered by the budget of the impacted district.

Officials from the **Morgan County R-I School District (MC R-I)** assume the fiscal impact

ASSUMPTION (continued)

would be minimal because the process is already in place. MC R-I assumes this proposal would allow the state to intervene sooner rather than later. The proposal could cause some schools to be in the process a little quicker, which could cause some expense for those districts.

§162.1250 - Virtual schools

According to officials from **DESE**, this section will generate the capacity for a large number of students to enroll in charter virtual schools. The number cannot be estimated; however, if the Weighted Average Daily Attendance increases by only 300 students, it could cost the state \$1 million.

Oversight assumes this section the proposal is permissive to receiving schools in that it states "School districts or charter schools may enroll any virtual nonresident student." However, a cost can be assessed against a residence district if a school district or charter school elects to provide such virtual education to non-resident students. **Oversight** assumes an (Unknown) cost to school districts.

§163.011 & 163.031 - School Funding

§163.011 (2)

According to officials from **DESE**, the statutory change introducing the "aggregate proration factor" into the current Missouri School Foundation Formula serves to create a variable in methodology for the distribution of state funds appropriated for distribution to Missouri school districts. The "aggregate proration factor" is only used when the amount of the appropriation is insufficient to provide a proration factor of one (1), and does not increase the cost of funding of the formula.

§163.011 (4)

This provision would result in savings to the state. Without this language, the State Adequacy Target (SAT) would have been \$6,423 in FY13, which would increase the Foundation Formula call by approximately \$218,135,595. In FY14 the SAT would have increased to \$6,716 and would have resulted in an additional Formula call of approximately \$238,173,702.

The language in this section results in a recalculated SAT of \$6,196 for FY13 and \$6,260 in FY14. With the lower SAT, the call on the Formula would increase by approximately

ASSUMPTION (continued)

\$48,041,316 thereby reducing the call by \$170,094,279 for FY13 as the result of this amended language. In FY14 the increase to the Formula would increase by approximately \$47,572,604, thereby saving approximately \$190,601,097 as the result of this amended language.

The approximate combined net reduction in cost to the state for FY13 & FY14, would be \$360,695,376 and each year thereafter.

§163.011 (6)

The "dollar value modifier", is an index of the relative purchasing power of a dollar, calculated as one plus fifteen percent of the difference of the regional wage ratio minus one, provided that the dollar value modifier shall not be applied at a rate less than 1.0 provided further that the dollar-value modifier shall be recalculated every fiscal year, beginning in fiscal year 2013, using a three-year simple moving average of the wage data from the fourth, fifth, and sixth years preceding the payment year from the Bureau of Economic Analysis of the United States Department of Commerce.

Initial calculations indicate that implementation of this statute change would not cause the state to increase the cost to the formula for FY13, but would rather result in a reduction to the formula cost in excess of \$100,000. While the cost could increase in future years, it would spread the cost increase over three years rather than one. Districts would see less radical shifts in increases and decreases from year to year.

§163.011 (13) & (14)

The "modified formula payment" and the "modified hold harmless payment" are also only used when the amount of the appropriation is insufficient to provide a proration factor of one (1). Both terms specify the amount of proration for "formula districts" and "hold harmless districts", but do not increase the cost of funding the formula.

ASSUMPTION (continued)

§163.031

Based upon the most current data available, and assuming that data as a constant, this proposal does have additional cost built into the future. That cost is as follows:

FY 2014

For fiscal year 2014, the general assembly shall appropriate an amount under subsections 1, 2, and 8 of this section that equals or exceeds the formula appropriation under subsections 1, 2, and 4 of this section as it existed in fiscal year 2011;

Since the amount called for is that of the fiscal year of 2011, \$3,004,388,410, and the other changes with this proposal do not increase the formula call, the fiscal note for FY14 would be **\$0.00**.

FY 2015

For fiscal year 2015, the general assembly shall appropriate an amount under subsections 1, 2, and 8 of this section that is sufficient to produce an aggregate proration factor of at least .93.

Since the amount called for in FY15 must be sufficient to achieve an aggregate proration factor of .93 (or 93% of what it would take to fully fund the formula) additional cost, calculated based upon the most current data available and assuming that data as a constant, there would be a fiscal note for FY15.

| | |
|--------------------|-----------------------|
| FY14 Formula Call: | \$3,353,043,813 |
| FY15 Formula Call: | \$3,118,330,746 |
| Cost for FY15: | \$ 243,713,067 |

FY 2016

For fiscal year 2016, the general assembly shall appropriate an amount under subsections 1, 2, and 8 of this section that is sufficient to produce an aggregate proration factor of at least .96;

ASSUMPTION (continued)

Since the amount called for in FY16 must be sufficient to achieve an aggregate proration factor of .96 (or 96% of what it would take to fully fund the formula) additional cost, calculated based upon the most current data available and assuming that data as a constant, there would be a fiscal note for FY16.

| | |
|--------------------|-----------------------|
| FY15 Formula Call: | \$3,353,043,813 |
| FY16 Formula Call: | \$3,218,922,061 |
| Cost for FY16: | \$ 100,000,000 |

2017

For fiscal year 2017, the general assembly shall appropriate an amount under subsections 1, 2, and 8 of this section that is sufficient to produce an aggregate proration factor of at least 1.0;

Since the amount called for in FY17 must be sufficient to achieve an aggregate proration factor of 1.0 (or 100% of what it would take to fully fund the formula) additional cost, calculated based upon the most current data available and assuming that data as a constant, there would be a fiscal note for FY17.

| | |
|--------------------|-----------------------|
| FY16 Formula Call: | \$3,353,043,813 |
| FY17 Formula Call: | \$3,353,043,813 |
| Cost for FY17: | \$ 134,121,752 |

DESE notes that calculations were based upon the SAT that will be in place for FY13 and FY14. By statute, a new SAT will be recalculated in 2014 to be applied in FY15 and FY16, with a subsequent recalculation in 2016 to be used in FY17. It is not possible to reflect what those numbers might be, nor is it possible to reflect the impact should they increase.

§163.172 - Teacher Salaries

Oversight assumes the repeal of language in §163.172.1 regarding minimum salary requirements for teachers with master's degrees could result in unknown savings for school districts

| <u>FISCAL IMPACT - State Government</u> | FY 2013 (10 Mo.) | FY 2014 | FY 2015 |
|---|------------------------|------------------------|------------------------|
| GENERAL REVENUE | | | |
| <u>Savings</u> - Education costs the state would not pay to local school districts for students receiving scholarships provided in this proposal (§135.712 - 135.716) | \$0 to \$69,439,029 | \$0 to \$69,439,029 | \$0 to \$69,439,029 |
| <u>Savings</u> - Up to 2% of contributions may be used to offset expenses incurred by DED (§135.716.5) | \$0 to \$160,447 | \$0 to \$165,917 | \$0 to 166,634 |
| <u>Savings</u> - Elementary and Secondary Education (DESE) - Reduction in foundation formula funding (§163.011 & 163.031) | \$100,000 | \$0 | \$0 |
| <u>Cost</u> - Department of Economic Development (DED) | | | |
| Personal Costs (1 FTE) | (\$33,510) | (\$40,614) | (\$41,020) |
| Fringe Benefits | (\$17,740) | (\$21,501) | (\$21,716) |
| Expense and Equipment | (\$9,197) | (\$3,802) | (\$3,898) |
| Marketing and Administration | <u>(\$100,000)</u> | <u>(\$100,000)</u> | <u>(\$100,000)</u> |
| Total Costs - DED (§135.712 - 135.716) | (\$160,447) | (\$165,917) | (\$166,634) |
| Estimated Net Effect on FTE for DED (§135.712 - 135.716) | 1 FTE | 1 FTE | 1 FTE |
| <u>Cost</u> - Department of Elementary and Secondary Education (DESE) - Personal Services (3 FTE) (§160.400-160.425) | | | |
| Personal Services | (\$116,720) | (\$141,465) | (\$142,879) |
| Fringe Benefits | (\$61,792) | (\$74,892) | (\$75,640) |
| Equipment and Expenses | (\$35,850) | (\$6,015) | (\$6,165) |
| Charter Commission operational expenses | <u>(\$125,000)</u> | <u>\$0</u> | <u>\$0</u> |
| TOTAL DESE Expenses | (\$339,362) | (\$222,372) | (\$224,684) |

| <u>FISCAL IMPACT - State Government</u> | FY 2013 | FY 2014 | FY 2015 |
|--|--|--|---|
| | (10 Mo.) | | |
| GENERAL REVENUE (Continued) | | | |
| Estimated Net Effect on FTE for DESE (§160.400-160.425) | 4 FTE | 4 FTE | 4 FTE |
| <u>Cost - Charter School Sponsors (State Universities) (§160.400-160.425)</u> | (Unknown - Could Exceed \$100,000) | (Unknown - Could Exceed \$100,000) | (Unknown - Could Exceed \$100,000) |
| <u>Cost - DESE - Foundation formula funding (§163.011 & 163.031)</u> | \$0 | \$0 | (\$243,713,067) |
| <u>Loss - Tax Credits for Contributions to educational assistance organizations (§135.713)</u> | \$0 to (\$40,000,000) | \$0 to (\$40,000,000) | \$0 to (\$40,000,000) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>(\$499,809) to</u> <u>\$29,099,667</u> | <u>(\$488,289) to</u> <u>\$29,116,657</u> | <u>(\$214,598,722</u> <u>to</u> <u>\$244,204,385)</u> |
| | <hr/> | | |
| ESTIMATED NET FTE EFFECT ON GENERAL REVENUE | 5 FTE | 5 FTE | 5 FTE |

| <u>FISCAL IMPACT - State Government</u> | FY 2013 (10 Mo.) | FY 2014 | FY 2015 |
|--|--------------------------|--------------------------|--------------------------|
| STATE SCHOOL MONEYS FUND | | | |
| <u>Savings</u> - Reduced fund distribution to schools due to decrease in students (§135.712 - 135.716) | \$0 to \$69,439,029 | \$0 to \$69,439,029 | \$0 to \$69,439,029 |
| <u>Savings</u> - Reduced distribution of foundation formula funding to school districts (§163.011 & 163.031) | \$100,000 | \$0 | \$0 |
| <u>Transfer In</u> - DESE - Foundation formula funding (§163.011 & 163.031) | \$0 | \$0 | \$243,713,067 |
| <u>Loss</u> - Reduced foundation formula funding (§135.712 - 135.716) | \$0 to (\$69,439,029) | \$0 to (\$69,439,029) | \$0 to (\$69,439,029) |
| <u>Loss</u> - Reduced foundation formula funding (§163.011 & 163.031) | (\$100,000) | \$0 | \$0 |
| <u>Transfer Out</u> - Distribution of foundation formula funding to school districts (§163.011 & 163.031) | _____ \$0 | <u>\$0</u> | <u>(\$243,713,067)</u> |
| ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2013 (10 Mo.) | FY 2014 | FY 2015 |
|--|---|-------------------------------------|--|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Savings</u> - School Districts - Teacher Salaries (Repeal §163.172.1) | Unknown | Unknown | Unknown |
| <u>Transfer In</u> - School Districts - Increase in foundation formula payments from State School Moneys Fund (§163.011 & 163.031) | \$0 | \$0 | \$243,713,067 |
| <u>Loss</u> - Reduced foundation formula funding due to decrease in students (§135.712 - 135.716) | \$0 to (\$69,439,029) | \$0 to (\$69,439,029) | \$0 to (\$69,439,029) |
| <u>Cost</u> - School Districts - Virtual Schools (§162.1250) | (Unknown) | (Unknown) | (Unknown) |
| <u>Cost</u> - School Districts - Reduction in formula payments from State School Moneys Fund (§163.011 & 163.031) | <u>(\$100,000)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS | <u>(\$100,000 to \$69,539,029)</u> | <u>\$0 to (\$69,439,029)</u> | <u>\$174,274,038 to \$243,713,067</u> |

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

§135.712 - 135.719 - Passport Scholarship Program

This proposed legislation establishes the Passport Scholarship Program to grant scholarships to students residing in an unaccredited school district to attend a qualified nonpublic school.

Beginning in tax year 2012, a taxpayer may make a qualifying contribution to an educational assistance organization and claim a tax credit. The annual cumulative amount of tax credits is limited to \$40 million, which will be modified based on the consumer price index. The tax credit is for sixty percent of the amount of the contribution, is nonrefundable, and may be carried forward for four years. The Director of the Department of Economic Development must establish a procedure to apportion the amount of tax credits among all educational assistance organizations and may reapportion credits to educational assistance organizations that have used all, or a certain percentage, of their tax credits.

The provisions of the proposal will expire six years after the effective date of the bill.

§160.400-160.425 - Charter Schools

This proposal changes the laws regarding charter schools and establishes the Missouri Charter Public School Commission. Provisions in the proposal include the following:

(1) Allows a charter school to operate in:

(a) An unaccredited district;

(b) A provisionally accredited district that has been provisionally accredited for three consecutive years, with school year 2009-2010 as the base year. Eligibility for charter schools in a provisional district where financial stress or hardship is a factor must be determined by the State Board of Education within the Department of Elementary and Secondary Education in the third year of qualifying. Only the local school board or a sponsor who has met accountability standards may sponsor a school in a provisionally accredited district; and

© A school district that is accredited without provisions, but only the local school board may sponsor a charter school in the district;

(2) Expands the entities that are eligible to sponsor a charter school to include all public four-year colleges and universities and any private four-year college or university with its primary campus in the state and with an approved teacher education program; any community

FISCAL DESCRIPTION (continued)

college whose service area encompasses some portion of the district; certain two-year private nonprofit vocational or technical schools; and the Missouri Charter Public School Commission established in the proposal;

(3) Requires the state board of education to evaluate sponsors for compliance with standards every three years and removes the one-year limitation on the state board's ability to withhold funds and suspend the sponsor's authority until the sponsor is reauthorized by the state board;

(4) Requires DESE to establish an annual application and approval process for all eligible sponsors who are not sponsoring a charter school as of August 28, 2012;

(5) Changes the appeal body for a sponsor's revocation decision from judicial review to the state board;

(6) Specifies that foster children's educational rights are applicable to charter schools; and

(7) Establishes the Missouri Charter Public School Commission with authority to sponsor high quality charter schools

§162.1250 - Virtual Schools

This section allows students who are residents of an unaccredited school district who is enrolled in a public school in the unaccredited district to enroll in a school district other than their school district of residence or a charter school for the purpose of attending virtual courses or programs.

The receiving school must admit the student based on the time of application until full capacity is reached. Once enrolled, the student may remain in the program until he or she completes the grade levels offered or withdraws. For school funding purposes, the student will be counted in the district of his or her residence, which must pay the receiving school 72.5% of the previous year's average current expenditure per average daily attendance, not to exceed the total amount due the residence district under the funding formula.

§163.011 & 163.031 - School Funding

This proposal changes the laws regarding the elementary and secondary education funding formula. In its main provisions, the proposal:

(1) Specifies that in any year in which appropriations do not equal the amount necessary to fully fund the formula, payments to school districts will be modified to accommodate available

FISCAL DESCRIPTION (continued)

appropriations. Reductions and increases will be calculated differently for hold-harmless and formula districts. If the formula is underfunded, payments to hold-harmless districts will be decreased at one-third of the rate of the decrease to formula districts. If the formula is over funded, payments to hold-harmless districts will be increased at one-third of the rate of the increase to formula districts;

(2) Requires the dollar-value modifier to be recalculated every fiscal year, beginning in Fiscal Year 2013, using a three-year rolling average of the wage data from the Bureau of Economic Analysis of the United States Department of Commerce for the fourth, fifth, and sixth years before the payment year. Currently, the definition uses only the fourth previous year's information and the dollar value modifier has not been recalculated since the adoption of the formula in 2005;

(3) Requires, for Fiscal Year 2014, the General Assembly to appropriate an amount for school funding that equals or exceeds the appropriation in Fiscal Year 2011. Each fiscal year thereafter through Fiscal Year 2017, an increasing factor will be used to determine the target school funding appropriation until the factor is at least 1.0;

(4) Repeals the provision which allows the state adequacy target to be adjusted to accommodate available appropriations once the phase-in is completed; and

(5) Repeals several obsolete provisions regarding the formula's phase-in period.

(6) Restores the five percent cap on current operating expenses per recalculation of the SAT.

§163.172 - Teacher Salaries

This section of the proposal repeals part of §163.172.1 which has a minimum salary requirement for full-time teachers with at least ten years' experience in a public school or combination of public schools and a master's degree.

§135.712, 135.713, 135.714, 135.715, 135.716, 135.717, 135.719, 162.081, 162.1250, 163.011, 163.031, and 167.131 167.133, and 167.425 have an emergency clause.

§168.102, 168.110, 168.124, 168.211, 168.221, and 168.251, and the repeal of §168.291 have an effective date of July 1, 2013.

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

LMD:LR:OD

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Department of Higher Education
Office of State Courts Administrator
Department of Social Services
 Children's Division
 Division of Youth Services
Office of the Governor
Department of Public Safety
 Missouri State Highway Patrol
Joint Committee on Education
Office of State Auditor
Missouri House of Representatives
Missouri Senate
Department of Economic Development
 Division of Business and Community Services
Department of Revenue
Joint Committee on Administrative Rules
Office of Secretary of State
 Administrative Rules Division
Department of Insurance, Financial Institutions and Professional Registration
Office of State Treasurer
State Tax Commission
Office of Administration
 Division of Budget and Planning
School Districts
 Mexico
 Parkway
 Special School District of St Louis County

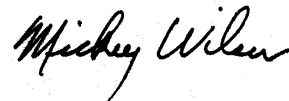
SOURCES OF INFORMATION (continued)

Colleges and Universities

Northwest Missouri State University
Missouri State University
Linn State Technical College
Missouri Southern State University
Harris-Stowe State University
Missouri Western State University

Charter School Sponsor

University of Central Missouri
University of Missouri System
Kansas City Metropolitan Community College



Mickey Wilson, CPA
Director
February 27, 2012