

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0607-01
Bill No.: HB 465
Subject: Elementary and Secondary Education
Type: Original
Date: March 6, 2019

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$35,640) to (\$66,632)	Less than \$39,285,711	Could exceed (\$412,267,382)
Total Estimated Net Effect on General Revenue	\$35,640	Less than \$39,285,711	Could exceed (\$412,267,382)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
State Schools Money Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 or 1	0 or 1	0 or 1
Total Estimated Net Effect on FTE	0 or 1	0 or 1	0 or 1

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	Could exceed (\$39,285,711)	Less than \$412,267,382

FISCAL ANALYSIS

ASSUMPTION

Officials from **Department of Elementary and Secondary Education (DESE)** assume this proposal will require changes to the Foundation Formula application regarding local effort and summer school ADA Process.

Sections 151.150, 163.011, 163.031, 166.131, 167.020, 167.131, 167.151

"Simulations were run with the State Adequacy Target (SAT) being adjusted over two years as outlined in statute. When the changes, called for in the proposed legislation, were applied and the SAT was spread over the two years, the resulting call on the formula in FY 21 is \$3,452,542,210 for a decrease of \$39,285,711 compared to the FY 19 TAFP appropriation. For FY 22 the formula call is \$3,904,095,303 for an increase of \$412,267,382 compared to the FY 19 TAFP appropriation.

The difference between the two years is due to the changes in the deductions for the formula being applied the first year while, per statute, only half of the SAT was used. The second year, the adjustment for the deductions had already taken place and the impact of the remaining increase to the SAT was much more impactful."

Assumptions used in the simulation:

1. Used the FY 19 November annualized payment components.

2. Recalculated the SAT using information from fiscal years 2006, 2007, 2008, and 2009 for the current operating expenditures (COE). Growth was removed. Performance districts were districts who scored 90% or above for 4 years and the resulting SAT is \$7,499, and threshold percentages changed to FRL - 31.02, IEP - 13.08, LEP 2.60. COE per Average Daily Attendance (ADA) was calculated by averaging each of the 4 year's COE per ADA amount. Each of the 4 year's ADA was averaged for use in the SAT calculation as well. Half the increase in the SAT is applied the first year; the full SAT is applied the second year per statute.

3. Recalculated the performance levy by including performance districts that have a levy greater than \$2.75 in all four years and averaging their fiscal years' 2006, 2007, 2008, 2009 tax levies, then taking each district's 2018 enrollment divided by their average levy for the 4 years. Then sorting by low to high based on the average levy excluding the top and bottom 5% of districts by using 5% of total 2018 enrollment. Then taking the total of the remaining districts' enrollment divided by average levy and dividing that by total 2018 enrollment of the remaining districts to equal \$3.6739.

ASSUMPTION (continued)

4. Recalculated Local Effort using the new performance levy and the average of fiscal years 2006, 2007, 2008, and 2009 local effort components results used in the local effort calculation.
5. The WADA process was changed to exclude summer school ADA from the weighting process and adding the summer school ADA in at the end to calculate the district's WADA.
6. Summer school attendance hours were limited so they cannot exceed 10% of regular term attendance hours.
7. Small School Hold harmless calculation was changed to be the amount per WADA the small schools were paid in FY 2018.

Officials from the **Springfield Public Schools** assume this proposal will result an unknown impact.

Using data from 2005-2008, **Oversight** recalculated the performance levy by averaging the operating tax levy over the four years for each district then dividing the average tax levy by the district's 2018 current ADA. Then Oversight summed the total of the products and divided by the total 2018 current ADA for all districts (excluding non-performing districts and those with a tax levy of \$2.75 or below for all of the four years). The adjusted performance levy as calculated by Oversight is estimated at \$3.657. Additionally, Oversight adjusted the assessed values used in calculating the Local Effort by averaging the values over a four period from 2005-2008.

Using data from 2005-2008, Oversight recalculated the State Adequacy Target by averaging the current operating expenditures (less exclusions) for the four year period for each district that fell within the top and bottom 5% of current operating expenditures (COE) per ADA. Then summed the average COE for the included districts and divided by the average of the ADA over the four year period of the included districts. The adjusted State Adequacy Target (SAT) as calculated by Oversight is estimated at \$7,510.

Oversight has requested additional information from DESE to be able to update our models and verify their estimates. Upon the receipt of additional information, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

For purposes of the fiscal note, Oversight will show an impact to the foundation formula as estimated by DESE.

ASSUMPTION (continued)

While the foundation formula was fully funded in FY 2018, **Oversight** is unable to predict whether it will be fully funded in future fiscal years. Oversight notes that if the foundation formula is not fully funded then any savings due to the transfer of students would be redistributed to other school districts and not result in a savings to General Revenue or the State School Moneys Fund. Therefore, Oversight will show the impact as \$0 (not fully funded) to the amounts estimated by DESE.

Sections 167.1200, 167.1205, 167.1210, 167.1215, 167.1220 - Student Transfers

DESE defers to local school districts.

Oversight assumes students transferring to non-resident districts shall count as resident pupils for purposes of state aid. Oversight cannot estimate the number of students that may transfer under this provision, but notes it could result in an unknown savings or cost to the foundation formula depending on the state aid payments of the sending and receiving districts.

Section 151.150 - ITSD Costs

DESE assumes this will require changes to the Foundation Formula application regarding local effort and summer school ADA Process. ITSD estimates the project would take 475.20 hours at a contract rate of \$75 per hour for a total cost to the state of \$35,640.

Oversight notes ITSD assumes that every new IT project/system will be bid out because all their resources are at full capacity. For this bill, ITSD assumes they will contract out the programming changes need to the MEDL, MODL, and CDIS systems. ITSD estimates the project would take 475.20 hours at a contract rate of \$75 per hour for a total cost to the state of \$35,640. Oversight notes that an average salary for a current IT Specialist within ITSD is \$51,618, which totals roughly \$80,000 per year when fringe benefits are added. Assuming that all ITSD resources are at full capacity, Oversight assumes ITSD may (instead of contracting out the programming) hire an additional IT Specialist to perform the work required from this bill. Therefore, Oversight will range the fiscal impact from the cost of contracting out the work (\$62,541) to hiring an additional FTE IT Specialist (roughly \$80,000 per year).

Oversight received a limited number of 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.

ASSUMPTION (continued)

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other school districts were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Cost - DESE - ITSD costs</u> (ranged from contracting out programming to hiring additional FTE IT Specialist)	(\$35,640) to (\$66,632)	\$0 to (\$80,631)	\$0 to (\$81,312)
<u>Cost Avoidance - foundation formula changes</u>	\$0	\$39,285,711	\$0
<u>Transfer Out - foundation formula changes</u>	\$0	\$0	(\$412,267,382)
<u>Transfer Out/Cost Avoidance - non-resident transfers</u>	<u>\$0</u>	Unknown to <u>(Unknown)</u>	Unknown to <u>(Unknown)</u>
ESTIMATED NET IMPACT ON GENERAL REVENUE	(\$35,640) to <u>(\$66,632)</u>	Less than <u>\$39,285,711</u>	Could exceed <u>(\$412,267,382)</u>

<u>FISCAL IMPACT - State Government</u> Continued	FY 2020 (10 Mo.)	FY 2021	FY 2022
STATE SCHOOLS MONEY FUND			
<u>Transfer In</u> - from General Revenue	\$0	\$0	\$412,267,382
<u>Cost Avoidance</u> - reduced call to the foundation formula	\$0	\$39,285,711	\$0
<u>Loss</u> - to school districts	\$0	(\$39,285,711)	\$0
<u>Transfer Out</u> - to school districts	\$0	\$0	(\$412,267,382)
<u>Transfer In/Cost Avoidance</u> - from General Revenue for non-resident transfers	\$0	Unknown to (Unknown)	Unknown to (Unknown)
<u>Transfer Out/Loss</u> - to school districts from non-resident transfers	<u>\$0</u>	<u>Unknown to</u> <u>(Unknown)</u>	<u>Unknown to</u> <u>(Unknown)</u>
ESTIMATED NET EFFECT ON STATE SCHOOLS MONEY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
SCHOOL DISTRICT FUNDS			
<u>Transfer In</u> - increased call to the foundation formula	\$0	\$0	\$412,267,382
<u>Loss</u> - reduced call to the foundation formula	\$0	(\$39,285,711)	\$0
<u>Transfer In/Loss</u> - from non-resident transfers	<u>\$0</u>	Unknown to (Unknown)	Unknown to (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	<u>\$0</u>	<u>Could exceed</u> <u>(\$39,285,711)</u>	<u>Less than</u> <u>\$412,267,382</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 changes the laws regarding elementary and secondary education and has a delayed effective date of July 1, 2020.

DEFINITIONS REGARDING THE CALCULATION OF STATE AID

This bill modifies the following definitions used in the calculation for the school funding formula (Section 163.011, RSMo):

(1) The "average daily attendance" includes the sum of regular term daily average and summer school pupils with exceptions as listed in the bill;

(2) Beginning in Fiscal Year 2021, "current operating expenses" (COE) are defined so that the COE shall use a four-year average calculation as specified in the bill. Additionally, beginning in Fiscal Year 2023 and every four years thereafter, any increase, to account for state funding, shall not exceed 5% of the prior fiscal year in which a change was required;

(3) Adds "free and reduced lunch threshold for the district," "limited English proficiency threshold for the district" and the "special education threshold for the district," to the definitions

FISCAL DESCRIPTION (continued)

that take the specified threshold multiplied by the district's regular term average daily attendance;

(4) Beginning in Fiscal Year 2021, "local effort" includes in the calculation an average of the four-year period as specified in the bill with a recalculation occurring every four years beginning in fiscal year 2025;

(5) Modifies "performance district" to include only districts with a score of at least 90% on the annual performance report for the four preceding school years;

(6) Changes the "performance levy" to a calculation of the average operating levy for performance districts over the four-year period as specified in the bill, divided by the total current average daily attendance of included performance districts. Any district with an operating levy of less than \$2.75 in the four-year period shall be excluded. Recalculation of the performance levy shall occur every four years; and

(7) Defines "regular term average daily attendance," as the quotient or the sum of the quotients obtained by dividing the total number of hours attended in a term by resident pupils between the ages of five and 21 by the actual number of hours school was in session in that term.

SMALL SCHOOL HOLD HARMLESS

This bill updates the state revenue calculation for districts with an average daily attendance of 350 or less from 2004-05 or 2005-06 school years to the 2017-18 school year and shall not be less than the sum of state revenue received by the district and the classroom trust fund divided by the weighted average daily attendance computed for the 2017-18 school year (Section 163.031).

TRANSFERS FROM DISTRICTS NOT ACCREDITED

This bill modifies the rate of tuition to be charged by a district when a pupil elects to transfer from a non accredited district. The new rate shall be paid by the sending district, the lesser of the two districts current expenditure per pupil. Charter schools will receive the lesser current expenditure per pupil for the sending district or the district in which the charter school is located (Section 167.131).

NON RESIDENT STUDENT TRANSFERS

This bill defines "non-resident district" and "resident district" (Section 167.1200).

FISCAL DESCRIPTION (continued)

The bill specifies that a student may attend school in any nonresident district. The nonresident district is not required to add teachers, staff, or classrooms to accommodate transfer applicants and the school may establish standards for transfer applications (Section 167.1205).

Beginning in school year 2021-22 students that transfer to a nonresident district may complete remaining school years as long as parents pay required tuition fees and provide transportation.

The cost for tuition is based on the current expenditure per pupil of the nonresident district attended by a student transferring, compared to the current expenditure per pupil of the student's resident district, the parent of the student shall pay the nonresident district a tuition rate equal to the difference in such amounts for each school year the student attends school in the nonresident district. Changes to this calculation will be updated and notification provided to pupil's parents annually before August 1.

Students that wish to attend nonresident schools that have an academic or competitive entrance process shall furnish proof that they meet the admission requirements.

The bill establishes when a student may be denied a transfer based on his or her discipline record and includes an appeal procedure (Section 167.1210).

This bill establishes that annually, before February 1, each school district shall set and publish the number of transfer students the district is willing to receive for the following school year. This number does not have to be more than zero.

The processes for a transfer application, and the details for notifications of acceptance or rejection are specified within the bill. The bill specifies the reasons that an eligible application may be rejected and notification must be provided in writing by August 1 of the school year for which the student wishes to attend (Section 167.1215).

ENFORCEABLE DESEGREGATION EXEMPTION

This bill provides that, prior to April 1, a school district may annually declare an exemption for the upcoming school year, from the requirements set forth in this bill, provided that the school district is subject to a desegregation order or mandate of a federal court or agency remedying the effects of past racial segregation or subject to a settlement agreement remedying the effects of past racial segregation. Additional exemptions are specified for students that qualify for transfers under other listed sections (Section 167.1220).

FISCAL DESCRIPTION (continued)

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
Springfield Public Schools



Kyle Rieman
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March 6, 2019

Ross Strobe
Assistant Director
March 6, 2019