

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3920H.03P
Bill No.: Perfected HCS for HB 1814
Subject: Education, Elementary and Secondary; Department of Elementary and Secondary Education
Type: Original
Date: March 8, 2022

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 2023	FY 2024	FY 2025
General Revenue*	(Could exceed \$317,973)	(Could exceed \$60,193,012)	(Could exceed \$193,911)
Total Estimated Net Effect on General Revenue	(Could exceed \$317,973)	(Could exceed \$60,193,012)	(Could exceed \$193,911)

*The amount of fiscal impact to the state starting in FY 2023 depends upon the number of students that apply and are accepted to transfer to a different school district. 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).

*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 2023	FY 2024	FY 2025
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 school districts in FY 2024 net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 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 2023	FY 2024	FY 2025
Local Government	\$0	(Unknown) to Unknown	(Unknown) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that Oversight has or on prior year information regarding a similar bill. Upon the receipt of agency 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.

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

Section 163.161

The changes to this section would eliminate the inefficiency penalties that a district may incur as a result of transporting students to a magnet school. Because the transportation payment is not calculated by building within a district, changes to how data is collected and a change to the transportation calculation system would be necessary. DESE estimates a cost that could exceed \$100,000 to make the necessary changes.

Section 167.1205, 167.1210

These sections could have a minimal impact on the foundation formula as students would be allowed to transfer to districts that receive more state aid per pupil. DESE is not able to estimate what this cost would be without knowing what students were going to transfer and to which districts.

Section 167.1220

This section outlines requirements the process for a student to apply to attend a nonresident district, and the process by which a receiving district must determine whether to grant the request. If the resident district believes that the nonresident district is not in compliance with the outlined requirements, the nonresident district may submit an appeal to the Commissioner of the Missouri Department of Elementary and Secondary Education (§167.1220.5(5), RSMo). The Commissioner must first attempt to mediate the dispute, and if that is unsuccessful, the Commissioner will conduct a hearing and take testimony from both school boards.

DESE assumes that this Chapter 536, RSMo, hearing will be conducted by a designee of the Commissioner. Based on this proposed language, the Office of Governmental Affairs estimates costs of less than \$100,000. These costs which will be dependent on the number of hearing appeals the State Board receives from districts that are not able to be resolved through mediation, include but are not limited to:

- Hearing officer time for hearing and drafting recommendations for the State Board;

- Administrative assistant time to schedule hearings, provide notice to parties and any settlement negotiations;
- Court reporter costs;

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.

Section 167.1220.5(5)

This section states that within five days of the Commissioner's decision, a school board may appeal the first-level decision to the Missouri State Board of Education "as provided in state law." DESE assumes that the intent is to conduct another Chapter 536, RSMo, hearing, but would note that after conducting an initial Chapter 536, RSMo, hearing, this matter would now appear to be eligible for review at the circuit court level pursuant to § 536.100, RSMo.

However, were DESE to conduct a second Chapter 536 RSMo, hearing, the costs listed above would remain, with costs dependent on the number of second-level appeals that are made to the State Board of Education.

Section 167.1230.11

The process of auditing 10% of districts participating in the public school open enrollment has the potential to require additional FTE. It is difficult to predict as DESE has no idea the number of districts will actually participate. At minimum this would be an FTE Director Position and computer and monitors would be necessary. Funding for this would be the "Parent Public School Choice Fund" as created in 167.1212 in this bill. If not funded then DESE would assume General Revenue would be required to be used.

Overall

New data collection mechanisms and reporting would also be needed based on the proposed legislation. DESE estimates two new data fields costing \$10,000 each and the reporting on the new data collected to cost \$15,000. Total one-time costs are projected to be \$35,000. Annual maintenance costs after the first year are estimated at \$3,500.

Officials from the **Office of the State Treasurer** assume the proposal will 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 agency.

In response to a 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 agency.

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

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

In response to a similar proposal from 2020 (HB 2310), officials from the **Wellsville-Middletown R-1 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 bars students from transferring until the 2023-2024 school year (FY 20244). 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 a \$60 million appropriation from the General Revenue fund to the new Parent Public School Choice Fund (§167.1212) in FY 2024 (Section B states the appropriate sections shall become effective July 1, 2023), and being expended to the local school districts. For simplicity, Oversight assumes all funds will be used within the year they are received.

Section 167.151 - Property Owner Student Transfers

Oversight assumes this proposal would allow any person who owns real residential or agricultural property and pays a school tax in any district other than the district of residence to send their children to a public school in the district where that persons pays such school tax.

Oversight notes the student will count towards average daily attendance at the district of choice. Therefore, Oversight notes this proposal allows students to transfer beginning in the 2023-2024 school year (FY 2024). Oversight cannot estimate number of transfers 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). Therefore, this note will reflect a potential unknown cost (if students transfer into districts that receives 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 is uncertain if this provision would reach a revenue impact of \$250,000. Oversight notes if the difference in funding between districts is \$1,000 (assumed) and approximately 250 students transferred under this provision it would result in a revenue impact of \$250,000. Oversight notes a change of 250 ADA is approximately a 0.03% change in total ADA (250/843,650); therefore, Oversight assumes it is possible the impact could exceed \$250,000.

As Amended (HA1, HA1 to HA1, HA2, HA3, HA4)

Oversight assumes the amendments do not substantially change the fiscal impact as previously estimated.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Costs</u> - transportation calculation changes - §163.161 p. 3	(Could exceed \$100,000)	\$0	\$0
<u>Transfer Out</u> – to the Parent Public School Choice Fund §167.1212.1	\$0	(\$60,000,000)	\$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 & §167.151	\$0	(Unknown) or Unknown	(Unknown) or Unknown
<u>Costs</u> – DESE – data collection mechanisms and reporting §167.1200 - §167.1230	(\$35,000)	(\$3,500)	(\$3,500)
<u>Costs</u> – DESE – to conduct hearings on appeals §167.1220	Less than (\$100,000)	Less than (\$100,000)	Less than (\$100,000)
<u>Costs</u> - DESE - §167.1230.11 p. 4			
Personnel Service	(\$42,740)	(\$51,801)	(\$52,319)
Fringe Benefits	(\$24,375)	(\$29,423)	(\$29,598)
Expense & Equipment	(\$15,858)	(\$8,288)	(\$8,494)
<u>Total Costs</u> -	<u>(\$82,973)</u>	<u>(\$89,512)</u>	<u>(\$90,411)</u>
FTE Change	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	(Could exceed <u>\$317,973</u>)	(Could exceed <u>\$60,193,012</u>)	(Could exceed <u>\$193,911</u>)
Net FTE Change for General Revenue	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT – State Government</u> Continued	FY 2023 (10 Mo.)	FY 2024	FY 2025
PARENT PUBLIC SCHOOL CHOICE FUND			
<u>Transfer In</u> – from General Revenue	\$0	\$60,000,000	\$0 or Unknown
<u>Expenditures</u> – to school districts to support the Public School Open Enrollment Program	\$0	(\$60,000,000)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE PARENT PUBLIC SCHOOL CHOICE FUND	\$0	\$0	\$0

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
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 <u>Unknown</u>	(Unknown) or <u>Unknown</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	\$0	(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 permits school districts that operate magnet schools included in a master desegregation settlement agreement to be exempt from transportation inefficiency requirements when transporting students to magnet schools (Section 163.161 RSMo).

This bill allows, beginning after July 1, 2023, any person that owns residential or agricultural real property in any school district, and pays a school tax of at least \$3000 in that district and owned property for at least three years, to send children to that district, upon notification to the district at least 30 days prior to enrollment, and the district shall count that child for the districts average daily attendance (Section 167.151).

PUBLIC SCHOOL OPEN ENROLLMENT ACT (Sections 167.1200 to 167.1230)

The bill adds Sections 167.1200 to 167.1230, establishing the "Public School Open Enrollment Act".

DEFINITIONS (Section 167.1200)

The bill defines "non-resident district", "public school choice student", and "resident district" among other definitions.

TRANSFER POLICY AND PARTICIPATION (SECTION 167.1205)

The bill creates a public school open enrollment program with the design to improve quality instruction and increase parental involvement, provide access to programs and classes, and offer opportunity to align parental curriculum options to personal beliefs.

The bill specifies that any student beginning kindergarten or already enrolled in a public school may attend a public school in any nonresident district. Districts must declare participation in the Open Enrollment Program by October 1. Participating districts are not required to add teachers, staff, or classrooms to accommodate transfer applicants. The bill includes a procedure for districts to take when a transferring student has special education needs. Schools may also establish standards for transfer applications and post the information on the school website and in the student handbook.

The Department of Elementary and Secondary Education (DESE) or an entity skilled in policy development shall develop a model open enrollment transfer policy as outlined in the bill. A school board may modify the model policy but all public schools must adopt the model policy, regardless of participation in the program; however, each school board may modify the model policy based on the districts' needs.

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

Students that participate in open enrollment in high school may not participate in varsity sports during the first 365 days of enrollment in a non-resident district with exceptions outlined in the bill.

No transfers under this act may begin until the school year 2023- 24. For school years 2023-24 and 2024-25 districts may restrict the number of transferring students to 5% of the previous school year's enrollment.

APPLYING FOR TRANSFER (Section 167.1210)

Any student that applies for a transfer may only accept one transfer per school year, although the student may return to their resident district and must complete a full semester before applying for another transfer. Students may complete all remaining school years in their nonresident district and any sibling may enroll if the district has the capacity as provided by the bill.

For the purposes of federal and state aid the student shall be counted as a resident pupil of the nonresident district.

Parents will be responsible for transportation to the nonresident school or to an existing bus stop location in the nonresident district. Students that qualify for free and reduced meals may have transportation expenses reimbursed quarterly as outlined in the bill.

REVENUE CALCULATION (Section 167.1211)

The bill allows districts to receive funding from the "Parent Public School Choice Fund" for special education services up to three times the current expenditure per average daily attendance and for transportation costs for students that qualify for free and reduced meals.

PARENT PUBLIC SCHOOL CHOICE FUND (Section 167.1212)

This bill establishes the "Parent Public School Choice Fund" with a \$60 million appropriation to be used to supplement open enrollment transfers from any resident district for transportation cost for students that qualify for free and reduced meals, and to reimburse for special needs education as outlined in Section 167.1211.

NUMBER OF TRANSFER STUDENTS (Section 167.1215)

The bill specifies that annually, before October 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. Districts will also develop a policy for a wait list.

APPLICATION PROCESS (Section 167.1220)

The processes for a transfer application, and the details for notifications of acceptance or rejection are specified within the bill. Superintendents will review and reject applications in a timely manner and must present to the board any rejections for review. The bill explains the reasons that an eligible application may be rejected and notification must be provided in writing by June 1st. The bill defines "good cause" and allows for consideration of applications that are

submitted after December 1st and before July 1st. The Department of Elementary and Secondary Education shall be notified of all accepted students and will request an anonymous survey related to the reasons for participating in the open enrollment program. The Department will publish an annual report based on the survey results.

ALLOWED EXEMPTIONS (Section 167.1225)

This bill provides that, prior to April 1st, 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 who qualify for transfers under other listed sections.

APPEAL AND ANNUAL REPORTING (Section 167.1230)

The bill determines when a student may be denied a transfer based on his or her discipline record and includes an appeal procedure. The Department shall collect and report data annually from school districts on the number of applications and study the effects of the public school choice program transfers. The report shall be submitted annually by September 30th to the Joint Committee on Education, the House Committee on Elementary and Secondary Education, and the Senate Committee on Education (Section 167.1230).

Some provisions of this bill have a delayed effective date of July 1, 2023

House Amendment 1

This amendment modifies the language related to owners of real property may send children to a public school of choice in which the owner pays school tax.

House Amendment 1 to House Amendment 1

This amendment clarifies the how K-8 districts will pay tuition for open enrollment students.

House Amendment 2

This amendment clarifies that military aid impact funds will not transfer with a student for purposes of open enrollment.

House Amendment 3

This amendment excludes non-border transfer students from transportation reimbursement available under this proposal.

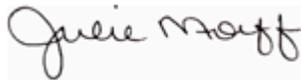
House Amendment 4

This amendment allow certain school districts (Hickman Mills) to restrict the number of students transferring to a nonresident district under this proposal.

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 the State Courts Administrator
Office of the State Treasurer
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



Julie Morff
Director
March 8, 2022



Ross Strobe
Assistant Director
March 8, 2022