

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0081H.03P
 Bill No.: Perfected HCS for HB 137
 Subject: Education, Elementary and Secondary
 Type: Original
 Date: April 14, 2021

Bill Summary: This proposal changes provisions related to funding for schools.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2037
General Revenue	Up to (\$541,383)	More than or less than (\$413,062)	More than or less than (\$413,389)	More than or less than (18,465)
Total Estimated Net Effect on General Revenue	Up to (\$541,383)	More than or less than (\$413,062)	More than or less than (\$413,389)	More than or less than (18,465)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2037
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2037
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2037
Total Estimated Net Effect on FTE	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 2022	FY 2023	FY 2024	FY 2037
Local Government	\$0 or Up to \$400,000	Greater or less than \$400,000	Greater or less than \$400,000	(Unknown) - 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 we have 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.

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.

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. A general listing of political subdivisions included in our database is available upon request.

Officials from **Department of Elementary and Secondary Education (DESE)** assume the need for ITSD services to modify a number of School Finance formula's and calculations. These are complex formulas that aggregate data from multiple DESE applications. DESE assumes approximately 1,488 hours of contracted ITSD services for a total cost of \$141,383 in FY 2022, 137 hours for a total cost of \$13,062 in FY 2023 and 141 hours for a total cost of \$13,389 in FY 2024.

In response to a previous version, officials from the **Kansas City Public Schools (KCPS)** stated the estimated cost of this bill is \$8 million for KCPS. In addition to resolving funding inequities, the larger conversation must be had simultaneously regarding full equity in operations, management and oversight. Traditional public schools and public charters operate under a different set of rules including accreditation status, salary and certification rules for teachers and much more. If a public charter is to receive 100% of local revenue shares, they must also be required to meet the same requirements and standards as a traditional public schools.

Based on information from the [Annual Secretary of the Board Report](#), **Oversight** notes the following totals for some of the revenue sources defined as “Local Aid” in this proposal:

Table I: Revenue Sources (2019-2020)

Revenue Source	Kansas City Public Schools	St. Louis City Public Schools
Financial Institutions Tax	\$1,884,891	\$3,039,432
Merchants' & Manufacturers' Tax	\$11,078,110	\$18,813,619
In Lieu of Tax	\$2,186,811	\$452,336
City Sales Tax	\$0	\$25,832,312
Fines, Escheats, Etc.	\$110,965	\$106,795
State Assessed Utilities	\$4,081,303	\$4,368,131
Total	\$19,342,080	\$52,612,625

Oversight included the “Fines, Escheats, Etc.” in this calculation because it was not specifically excluded from the all-inclusive definition of “local aid.” Based on information from DESE’s website, **Oversight** estimated the following Weighted Average Daily Attendance (WADA) for each district/charter school group:

Table 2: WADA for Kansas City Public Schools and Charter Schools (2018-2019)

	Weighted Average Daily Attendance
Kansas City Public Schools	18,026
Kansas City Charter Schools	15,472
Total	33,498

Table 2: WADA for St. Louis City Public Schools and Charter Schools (2018-2019)

	Weighted Average Daily Attendance
St. Louis Public Schools	25,811
St. Louis Charter Schools	12,724
Total	38,534

Oversight estimates approximately \$577 per WADA or \$8,933,687 would transfer from the Kansas City Public Schools to the Kansas City area Charter Schools ($\$19,342,080 / 33,498 = \577) * 15,472).

Additionally, Oversight estimates approximately \$1,365 per WADA or \$17,372,789 total would transfer from the St. Louis City Public Schools to the St. Louis City area Charter Schools ($\$52,612,625 / 38,534 = \$1,365$) * 12,724).

Oversight notes that public charter schools currently receive a smaller amount of local revenue than school public schools. The current payment from DESE to charter schools appears to be less than the “local aid” payments charter schools would receive under this proposal.

House Amendment 2 – Merchants’ & Manufacturers’ Tax and Special Education Costs

Oversight assumes this proposal would allow school districts to retain an administrative fee and the net cost of special education services. This provision would also exclude the Merchants’ & Manufacturers’ Tax from the calculation of local aid payments to charter schools for the Kansas City Public Schools.

Officials from the **Kansas City Public Schools (KCPS)** state this proposal includes a 0.25% annual admin fee to pay the district for administrative obligations the district has that charters will not such as property tax rate compliance, filings, collections, etc. This transfers roughly \$750k from charters to KCPS.

KCPS states the special education net cost above revenues for special education students using 2019-20 ASBR shows this as a transfer to KCPS of roughly \$7 million.

This provision allows KCPS to retain the Merchants’ & Manufacturers’ Tax to meet current annual principal and interest obligations of the district. This protects \$95 million over the next 15 years until that debt is repaid.

Oversight estimates exclusion of the Merchants’ & Manufactures’ Tax from local aid payments would reduce the local aid transfer to charter schools from KCPS to approximately \$3,821,584 annually ($(\$8,263,970/33,498 = \$247) * 15,472$). Beginning in FY 2037, the Merchants’ and Manufacturers’ Tax would no longer be excluded from the local aid payments to charter schools. This provision only applies to KCPS.

House Amendment 1 to House Amendment 2

Oversight assumes this provision delays the effective start date for local aid payments to charter schools for metropolitan school districts (the City of St. Louis Public Schools) until FY 2025 and the retention of local aid for net special education costs until FY 2026.

House Amendment 3 – Section 167.151 – School of Choice

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 2022-2023 school year (FY 2023). 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.

House Amendment 4 – Section 163.024 – Iron County

In response to a similar proposal, HB 679 (2021), officials from **Department of Elementary and Secondary Education (DESE)** assumed there would be a fiscal impact if these fines had to be included in the districts local effort calculation as it would reduce the amount of basic formula funds owed to the district. However, the department is unable to estimate the exact amount of impact.

In response to a similar proposal, HB 679 (2021), officials from the **Department of Natural Resources** assumed the proposal would have no fiscal impact on their organization.

In response to a similar proposal, Perfected HCS for HB 1817 (2020), **DESE** stated the fines paid into the Iron County school fund are from Doe Run mine and if those fines had to be included in the districts local effort calculation it would result in a lower foundation formula to those districts.

That being said, the last time these same fines where paid, this exact same law was in place to prevent the large fine amount from devastating the amount of foundation formula the district would receive. So the reply was in reference to the fact that last time these same fines where paid they were not included as part of the local effort deduction.

But there would officially be a lower formula call if this law were not in place, but at this time DESE does not have enough information in order to estimate that.

Oversight notes the following school districts appear to be located in Iron County:

- South Iron County R-I School Districts (Hold Harmless)
- Arcadia Valley R-II
- Belleview R-III
- Iron County C-4 School District (Hold Harmless)

Per the Administrative Order on Consent No. APCP-2019-001 the penalty to be paid by the respondents is \$1,200,000 in three annual payments \$400,000. Oversight notes the agreement was signed in August 2019, but is unsure when these payments will (or perhaps partially did already) occur.

Based on information provided by DESE, **Oversight** notes some of the school districts located in Iron County are considered hold harmless and the state aid payment would not change regardless of the whether the fine revenue is included in the calculation of local effort for districts considered hold harmless.

However, two of the districts are not considered hold harmless and any fine revenue not included in the calculation of local effort as a result of this proposal would result in a dollar for dollar increase in the state aid calculation. Therefore, **Oversight** will show a range of impact from \$0 (districts impacted are considered hold harmless) to a potential increased call to the foundation formula of up to \$400,000 due to additional fine revenue not being included in the calculation of local effort for districts that are not hold harmless.

Oversight received a limited number of responses from school districts and charter schools 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 that we have received from state agencies and political subdivisions; however, other School Districts and Charter Schools were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

Oversight notes subsection 160.415.15 is effective July 1, 2022. Therefore, Oversight will reflect impact to school districts and charter schools starting in FY 2023.

House Amendment 5 – Section 160.400 – Charter School Board

Oversight does not anticipate a fiscal impact from this provision.

Rule Promulgation

In response to a previous version, officials from the **Joint Committee on Administrative Rules** assumed this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

In response to a previous version, officials from the **Office of the Secretary of State** noted many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what their office can sustain with their core budget. Therefore, they reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2022	FY 2023	FY 2024	FY 2037
GENERAL REVENUE				
<u>Cost</u> - increased call to the foundation formula if the increase in specific fine revenue is not include in the calculation of local effort - §163.024 – pg. 6	\$0 or (Up to \$400,000)	\$0 or (Up to \$400,000)	\$0 or (Up to \$400,000)	\$0
<u>Cost</u> – DESE – ITSD services – §160.415 – pg. 3	(\$141,383)	(\$13,062)	(\$13,389)	(\$18,465)
<u>Costs or Cost Avoidance</u> – Difference in state funding for resident district and nonresident district for transferring students §167.151 - pg. 5 to 6	\$0	(Unknown) or <u>Unknown</u>	(Unknown) or <u>Unknown</u>	(Unknown) or <u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to (\$541,383)</u>	<u>More than or less than (\$413,062)</u>	<u>More than or less than (\$413,389)</u>	<u>More than or less than (18,465)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023	FY 2024	FY 2037
LOCAL EDUCATIONAL AGENCIES				
<u>Transfer Out</u> - School Districts - from Kansas City Public Schools & St. Louis Public Schools to area Charter Schools §160.415 – pg. 3 to 5	\$0	(Unknown, Could exceed \$3,821,584)	(Unknown, Could exceed \$3,821,584)	(Unknown, Could exceed \$26,306,476)
<u>Revenue</u> – School District – may retain an administrative fee – pg. 5	\$0	Unknown, Could exceed \$750,000	Unknown, Could exceed \$750,000	Unknown, Could exceed \$750,000
Revenue – School Districts – may retain special education service costs – pg. 5	\$0	\$0	Unknown, Could exceed \$7,000,000	Unknown, Could exceed \$7,000,000
<u>Transfer In</u> - Charter Schools - local aid revenue received from School Districts §160.415 – pg. 3 to 5	\$0	Unknown, Could exceed \$3,821,584	Unknown, Could exceed \$3,821,584	Unknown, Could exceed \$26,306,476
<u>Loss</u> – Charter Schools – local school districts retain an administrative fee – pg. 5	\$0	(Unknown, Could exceed \$750,000)	(Unknown, Could exceed \$750,000)	(Unknown, Could exceed \$750,000)
Loss – Charter Schools – local school districts retain special education service costs – pg. 5	\$0	\$0	(Unknown, Could exceed \$7,000,000)	(Unknown, Could exceed \$7,000,000)
<u>Revenue</u> - increase in state aid to impacted districts §163.024 - pg. 6	\$0 or Up to \$400,000	\$0 or Up to \$400,000	\$0 or Up to \$400,000	\$0
<u>Nonresident School Districts</u> - additional State funding for non-resident transfers but also additional costs to educate those students - §167.151 – pg. 5 to 6	\$0	Unknown - (Unknown)	Unknown - (Unknown)	Unknown - (Unknown)
<u>Resident School Districts</u> – reduced state funding, but also possible reduction in costs to educate those students - §167.151 – pg. 5 to 6	\$0	(Unknown) - <u>Unknown</u>	(Unknown) - <u>Unknown</u>	(Unknown) - <u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL EDUCATIONAL AGENCIES	\$0 or Up to \$400,000	Greater or less than \$400,000	Greater or less than \$400,000	(Unknown) - Unknown

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Section 160.415 - This bill requires charter schools and each school district to include an annual independent audit to verify pupil residency.

The bill requires school districts to pay for each pupil attending a charter school in that district based on the formula established in the bill which includes all state aid and local aid received by the school district divided by the total weighted average daily attendance of the school district and all charter schools within the school district. The bill defines "local aid" to include all local and county revenue received by the school district and charter schools within the school district, with specific examples and exclusions specified in the bill.

School districts must calculate the amount of local aid owed to a charter school monthly and make timely payments to the charter school as outlined in the bill. The Department of Elementary and Secondary Education shall conduct an annual review of payments from school districts with measures for over and underpayment as outlined in the bill.

This bill has a delayed effective date of July 1, 2022 and replaces the current funding mechanism for charter schools which will no longer apply after June 30, 2022.

House Amendment 2 - This provision would allow school districts to retain an administrative fee and the cost of special education services and would exclude the Merchants' & Manufacturers' Tax from the calculation of local aid.

House Amendment 1 to House Amendment 2 – This provision delays the effective start date local aid payments to charter schools for metropolitan school districts – the City of St. Louis Public Schools.

House Amendment 3 - Section 167.151 - This provision 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 may send their children to a public school in the district where that persons pays such school tax.

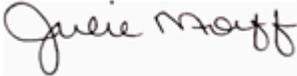
House Amendment 4 - Section 163.024 - This bill prevents money received into the Iron County School Fund from the payment of any penalty under the specified administrative order issued by the Department of Natural Resources to be included in the Iron County School calculation for local effort.

This section contains an emergency clause.

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
Department of Natural Resources
Office of the Secretary of State
Joint Committee on Administrative Rules
Kansas City Public Schools



Julie Morff
Director
April 14, 2021



Ross Strope
Assistant Director
April 14, 2021