

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0081S.04C
 Bill No.: SCS for HCS for HB 137
 Subject: Education, Elementary and Secondary; Elementary and Secondary Education,
 Department of; Natural Resources, Department of
 Type: Original
 Date: May 3, 2021

Bill Summary: This proposal modifies 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 (Fully Implemented)
General Revenue	(\$227,875)	(\$46,714)	(\$207,963)	(\$248,199)
Total Estimated Net Effect on General Revenue	(\$227,875)	(\$46,714)	(\$207,963)	(\$248,199)

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 (Fully Implemented)
General Revenue	0 FTE	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	0 FTE	2 FTE	2 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 2022	FY 2023	FY 2024	FY 2037
Local Government	\$0	\$0	\$0	\$0

*Revenue gain and loss net to zero.

FISCAL ANALYSIS

ASSUMPTION

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 2,399 hours of contracted ITSD services for a total cost of \$227,875 in FY 2022, with ongoing maintenance estimated at \$46,714 in FY 2023 and \$47,882 in FY 2024.

The additional requirements of the annual review performed by the department in subsection (10) (a) could result in the need for additional FTE to perform these extra duties. The department requests 2 FTE at the Assistant Director level to comply.

Oversight will show the FTE costs for annual reviews beginning in FY 2024.

Officials from **Gordon Parks Elementary** state the proposal will have a fiscal impact on their organization.

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.

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.

In response to a previous version, officials from the **Kansas City Public Schools (KCPS)** stated 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.

Oversight assumes this proposal 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.

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 (Fully Implemented)
GENERAL REVENUE				
Cost – DESE – ITSD services §160.415 - p.3	(\$227,875)	(\$46,714)	(\$47,882)	(\$66,009)
<u>Costs - DESE - §160.415</u>				
Personal Service	\$0	\$0	(\$90,487)	(\$102,984)
Fringe Benefits	\$0	\$0	(\$54,419)	(\$61,934)
Expense & Equipment	\$0	\$0	(\$15,175)	(\$17,271)
<u>Total Costs</u>	\$0	\$0	(\$160,081)	(\$182,190)
FTE Change - DESE - p.3	0 FTE	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$227,875)	(\$46,714)	(\$207,963)	(\$248,199)
ESTIMATED NET FTE CHANGE ON GENERAL REVENUE	0	0	2 FTE	2 FTE

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<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023	FY 2024	FY 2037 (Fully Implemented)
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. 4-5	\$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 – §160.415 - pg. 5	\$0	Unknown, Could exceed \$750,000	Unknown, Could exceed \$750,000	Unknown, Could exceed \$750,000
<u>Revenue</u> – School Districts – may retain special education service costs §160.415 – 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. 4-5	\$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 – §160.415 - pg. 5	\$0	(Unknown, Could exceed \$750,000)	(Unknown, Could exceed \$750,000)	(Unknown, Could exceed \$750,000)
<u>Loss</u> – Charter Schools – local school districts retain special education service costs - §160.415 – pg. 5	\$0	\$0	(Unknown, Could exceed \$7,000,000)	(Unknown, Could exceed \$7,000,000)
ESTIMATED NET EFFECT ON LOCAL EDUCATIONAL AGENCIES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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.

This proposal 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.

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

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 Secretary of State
Joint Committee on Administrative Rules
Kansas City Public Schools
Gordon Parks Elementary



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May 3, 2021



Ross Strope
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May 3, 2021