

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3565H.03P
Bill No.: Perfected HCS for HB 1552
Subject: Education, Elementary and Secondary; Department of Elementary and Secondary Education
Type: Original
Date: March 8, 2022

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
General Revenue	(\$227,875)	(Could exceed \$46,714) to Unknown	(Could exceed \$226,154) to Unknown	(Could exceed \$207,912) to Unknown
Total Estimated Net Effect on General Revenue	(\$227,875)	(Could exceed \$46,714) to Unknown	(Could exceed \$226,154) to Unknown	(Could exceed \$207,912) to Unknown

*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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (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 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
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 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
Local Government*	<u>\$0</u>	<u>(Unknown) to Unknown</u>	<u>(Unknown) to (Unknown)</u>	<u>(Unknown) to (Unknown)</u>

*Transfers between School Districts and Charter Schools net to zero.

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.

In response to the previous version, officials from **Department of Elementary and Secondary Education (DESE)** assumed 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 2023, with ongoing maintenance estimated at \$46,714 in FY 2024 and \$47,882 in FY 2025.

Section 160.415 (10) (a)

The additional requirements to 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 2025.

Based on an updated response to a similar proposal, HB 137 (2021), officials from the **Kansas City Public Schools (KCPS)** stated the funding gap for share of new revenue lines requested in the bill create an estimated \$10 million-\$12 million. This is in addition to the amounts they are currently paying to charter schools and relates to the increase in assessed valuation revenues from last year as well as changes in projected WADA using recent membership count data.

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	\$1,693,610	\$438,785
Merchants' & Manufacturers' Tax	\$9,749,215	\$19,053,380
In Lieu of Tax	\$2,172,633	\$477,423
City Sales Tax	\$0	\$22,478,264
Fines, Escheats, Etc.	\$92,535	\$375,663
State Assessed Utilities	\$4,497,384	\$4,009,975
Total	\$16,511,767	\$46,833,490

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 (2021)

	WADA
Kansas City Public Schools	15,295
Kansas City Charter Schools	15,209
Total	30,504

Table 2: K-12 Enrollment for St. Louis City Public Schools and Charter Schools (2021)

	Enrollment
St. Louis Public Schools	19,662
St. Louis Charter Schools	12,338
Total	32,000

Oversight estimates approximately \$541 per WADA or \$8,228,069 would transfer from the Kansas City Public Schools to the Kansas City area Charter Schools ($\$16,511,767 / 30,504 = \541) * 15,209).

Additionally, **Oversight** estimates approximately \$1,464 per WADA or \$18,062,832 total would transfer from the St. Louis City Public Schools to the St. Louis City area Charter Schools ($\$46,833,490 / 32,000 = \$1,464$) * 12,338).

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 through 2036.

In response to a similar proposal, HB 137 (2021), 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 \$3,376,398 annually ($(\$6,762,552/30,504 = \$222) * 15,209$). 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 retention of local aid for net special education costs until FY 2025.

House Amendment 2

Oversight assumes this amendment delays the effect date for local aid payments to charter schools for St. Louis Public Schools to FY 2029.

House Amendment 3

Oversight assumes this amendment reserves the sales tax revenue from being transferred to charter schools if a court decides the sales tax may only be used by the metropolitan school district. Pending the court decision, Oversight assumes this would be an unknown gain for the St. Louis Public Schools and a loss for the St. Louis area charter schools. Oversight will show a range of impact of \$0 (court decides area charter schools may use sales tax revenue) to an unknown loss/gain beginning in FY 2023.

House Amendment 5

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 person 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.

Responses regarding the proposed legislation as a whole

Officials from the **State Tax Commission** 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.

Rule Promulgation

In response to the 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.

SEQ CHAPTER \h \r 1 Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
GENERAL REVENUE				
<u>Cost – DESE – ITSD services §160.415 - p.3</u>	(\$227,875)	(\$46,714)	(\$47,882)	Could exceed (\$47,882)
<u>Costs - DESE - §160.415</u>				Could exceed...
Personal Service	\$0	\$0	(\$92,120)	(\$92,120)
Fringe Benefits	\$0	\$0	(\$54,436)	(\$54,436)
Exp. & Equip.	\$0	\$0	(\$31,716)	(\$13,474)
<u>Total Costs</u>	\$0	\$0	(\$178,272)	(\$160,030)
FTE Change - DESE - p.3	0 FTE	0 FTE	2 FTE	2 FTE
<u>Costs or Cost Avoidance – Difference in state funding for resident district and nonresident district for transferring students - §167.151</u>	\$0	\$0 or (Unknown) or <u>Unknown</u>	\$0 or (Unknown) or <u>Unknown</u>	\$0 or (Unknown) or <u>Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$227,875)</u>	(Could exceed \$46,714) to <u>Unknown</u>	(Could exceed \$226,154) to <u>Unknown</u>	(Could exceed \$207,912) to <u>Unknown</u>
ESTIMATED NET FTE CHANGE ON GENERAL REVENUE	0	0	2 FTE	2 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2023	FY 2024	FY 2025	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 \$3,376,398)	(Unknown, Could exceed \$3,376,398)	(Unknown, Could exceed \$26,290,901)
<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 \$3,376,398	Unknown, Could exceed \$3,376,398	Unknown, Could exceed \$26,290,901
<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)
<u>Loss</u> - Charter Schools - sales tax funds are not remitted - HA3 pg.5	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Gain</u> - Metropolitan School District - sales tax funds are retained by the metropolitan school district - HA3 - pg.5	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Nonresident School Districts</u> - additional State funding for non-resident transfers but also additional costs to educate those students - §167.151 - HA5 - pg. 6	\$0	(Unknown) to Unknown	(Unknown) to (Unknown)	(Unknown) to (Unknown)

<u>FISCAL IMPACT – Local Government</u> - Continued	FY 2023	FY 2024	FY 2025	FY 2037 (Fully Implemented)
<u>Resident School Districts</u> – reduced state funding, but also possible reduction in costs to educate those students §167.151 - HA5 - pg. 6	<u>\$0</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL EDUCATIONAL AGENCIES	<u>\$0</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>(Unknown)</u>	(Unknown) to <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 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 (DESE) shall conduct an annual review of payments from school districts with measures for over and underpayment as outlined in the bill and an accountability and transparency provision to assess the use of taxpayer dollars in services provided by charter schools.

This bill includes a calculation for an administrative fee to be retained from the January local aid payment by the school district. The calculation of the fee for a school district and a metropolitan school district are specified in the bill. DESE shall calculate the administrative fee and provide it to the school district before January 15, and publicly make the calculation of the administrative fee available on DESE's website.

The bill provides for a revised formula that shall be used beginning February 1, 2025, to calculate the total special educational services cost for a school district and for each charter within the school district. Before February 14th of each year DESE will calculate and transmit

calculations for net cost for providing special educational services and districts will use the calculations to determine the amount of local aid to distribute to each charter school within the district.

The bill has a delayed effective date of July 1, 2023 for all school districts except for a metropolitan school district which has a delayed effective date of July 1, 2025.

House Amendment 1

This amendment changes the title of the proposal.

House Amendment 2

This amendment changes the effective date for local aid payments to charter schools for St. Louis Public Schools to FY 2029.

House Amendment 3

This amendment reserves the sales tax revenue from being transferred to charter schools if a court decides the sales tax may only be used by the metropolitan school district.

House Amendment 5

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 to send their children to a public school in the district where that persons pays such school tax.

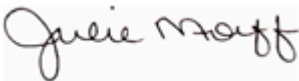
House Amendment 7

This amendment states section 160.415 shall be known as the Charter School Funding Act and states the act shall be nonseverable.

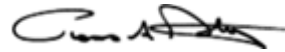
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of the Secretary of State
State Tax Commission
Joint Committee on Administrative Rules
Kansas City 33



Julie Morff
Director
March 8, 2022



Ross Strobe
Assistant Director
March 8, 2022