COMMITTEE ON LEGISLATIVE RESEARCH OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1124S.01I Bill No.: SB 81

Subject: Education, Elementary and Secondary; Treasurer, State

Type: Original

Date: January 23, 2023

Bill Summary: This proposal modifies provisions relating to parental choice in educational

opportunities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	
		Could Exceed	Could Exceed	
General Revenue*/**	Could exceed	(\$103,524,829) or Up	(\$103,527,469) or Up	
	(\$190,048)	to (\$156,124,829)	to (\$156,127,469)	
Total Estimated Net		Could Exceed	Could Exceed	
Effect on General		(\$103,524,829) or Up	(\$103,527,469) or Up	
Revenue	Could exceed	to	to (\$156,127,469)	
	(\$190,048)	(\$156,124,829)		

^{*}Oversight notes the additional costs to the General Revenue Fund includes an estimate of the number of public school students that would take advantage of Section 163.420 and transfer to a charter school, private school, other public school or virtual school. Oversight assumes 4% will transfer. If a larger percentage of students transfer or if the bill allows for current private school students to have the state pay for their tuition, the fiscal note would be **substantially** larger.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	
State School Moneys				
Fund (0616)*	\$0	\$0	\$0	
Total Estimated Net				
Effect on Other State				
Funds	\$0	\$0	\$0	

Numbers within parentheses: () indicate costs or losses.

^{*}State School Moneys Fund - Cost avoidance and loss of \$0 to approximately \$77.04 million annually and net to \$0.

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ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	
Total Estimated Net				
Effect on All Federal				
Funds	\$0	\$0	\$0	

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	
General Revenue	Could Exceed	Could Exceed	Could Exceed	
Fund	3 FTE	3 FTE	3 FTE	
Total Estimated Net	Could Exceed	Could Exceed	Could Exceed	
Effect on FTE	3 FTE	3 FTE	3 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	ED FY 2024 FY 2025 FY 2026					
Local School Districts	\$0 Less or Could Exceed		Less or Could Exceed			
		(\$77,046,060)	(\$77,046,060)			
Local Government		Less or Could	Less or Could			
	\$0	Exceed (\$77,046,060)	Exceed (\$77,046,060)			

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FISCAL ANALYSIS

ASSUMPTION

Section 135.1675 Homeschool Expenses Tax Credit

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

Section 135.1675, RSMo, appears to give a parent a tax credit if they homeschool which has no impact to DESE.

Officials from the **Department of Revenue (DOR)** assume

Starting January 1, 2024 a taxpayer can be eligible for a tax credit equal to \$100% of their qualifying expenses of each student they are homeschooling. The credit is to be refundable, but can't be sold or transferred. The individual amount of expenses a taxpayer can claim is up to the state adequacy target amount.

This proposal allows the credit to start January 1, 2024. However the first tax returns claiming the credit will not be received until after January 1, 2025 (FY 2025). Therefore, its first impact will be FY 2025.

The state adequacy target is calculated every two years. It is the amount of money paid to school districts, for each child enrolled, for the cost of educating them. This credit is on a tax year basis (Jan-Dec) but the state adequacy target is on a school calendar. The Department is unsure what additional administrative burden this will have on the Department.

Based on information published by DESE, there are 863,261 children enrolled in public schools. Based on data published by the U.S. Census Bureau, there are approximately 1,001,774 total children in Missouri that are school age. Based on information published by a private school statistics site, there are approximately 138,513 children enrolled in private schools. Therefore, the Department assumes there are 24,995 homeschooled children in Missouri. It is unclear if the proposal would encourage more parents to homeschool their child.

The current state adequacy target amount is \$6,375. Since DESE is unable to predict the state adequacy target amount for future fiscal years, for fiscal note purposes DESE assumes it will be unchanged. This is a refundable credit so it could result in \$159,343,125 being redeemed (24,995 * \$6,375).

However, research from several homeschool resources notes the average spent on a homeschooled child is between \$700 and \$1,800. That would result in an impact of \$17,496,500 (24,995 * \$700) and \$44,991,000 (24,995 * \$1,800). The Department will show in the first fiscal year \$17 million to \$44 million in impact.

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The Department notes the broadness of the items that count as qualifying expenses and the refundability of the credit may encourage parents to provide additional computer programs, tutoring etc. Additionally, the refundability of the credit may encourage additional parents to pursue homeschooling their children. Due to these unknowns it is possible that cost for this proposal could exceed the \$44 million estimated impact.

This proposal will require the Department to add the this credit to the MO-TC form, most likely create a form for the reporting of eligible expenses, updating their website and updating their individual income tax computer system. These changes are estimated at \$14,386.

The Department notes it will need one Associate Customer Service Representative (\$31,200) for every 6,000 returns redeeming this credit. Additionally they will need one FTE for every 7,000 errors/correspondence received. Therefore, at this time they assume they will need at least three FTE to handle this tax credit.

Oversight notes the National Home Education Research Institute (NHERI) provides a study based on survey of 15 States in U.S. The study provided percentages of homeschooled children K-12 as follow:

Source	Number of homeschool students	Homeschool as Percent of all students
North Carolina	179900	10.60%
US Census Bureau	not reported	6.00%
Montana	9868	6.00%
Virginia	65571	4.80%
Florida	143431	4.60%
Georgia	85510	4.60%
Nebraska	14780	4.30%
South Dakota	6698	4.20%
North Dakota	5308	4.20%
South Carolina	28316	3.40%
Delaware	4,950	3.30%
Washington	39843	3.30%

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Wisconsin	31878	3.20%
Minnesota	30955	3.20%
Rhode Island	3335	2.20%
Massachusetts	17127	1.70%
Total	667,470	3.98%

https://www.nheri.org/how-many-homeschool-students-are-there-in-the-united-states-pre-covid-19-and-post-covid-19/

Additionally, NHERI notes that the USCB (Census Bureau) data showed that of all school-age children during late March to early May of 2022, 86.58% were public schooled, 8.20% were private schooled, and 5.22% were homeschooled. Houston, Peterson, and West's (2022) survey found that 6.6% were homeschooled.

The remarkably higher numbers in the homeschool population during the spring of 2021 compared to the spring of 2020 will likely subside (e.g., Nitcher, 2021), but not completely. Many observers expect the number of homeschool students during the 2021-2022 conventional school year to remain significantly higher than during 2019-2020 because more families, both parents and children, experienced the benefits of parent-directed home-based education during the restrictions on schools during the past two school years.

Oversight will use the average of 3.98% homeschooled children, as shown in published study by the NHERI, to estimate the fiscal impact of this proposal.

Oversight notes that that <u>NHERI</u> stated, in different study, that homeschool families spend on average \$600 per student annually for their education. However, DOR assuming the cost could be as high as \$1,800 per pupil, based on additional studies.

Oversight notes according the <u>U.S. Census</u> for 2021 (latest data) there were 1,102,239 children of school age (K-12 as allowed per proposal). Therefore, Oversight will assume there were 43,869 homeschooled children in Missouri. (1,102,239*3.98%).

Oversight assumes, taking in consideration the data above, the total expenditures in potential tax credits under this proposal is \$26.3M (43,869 x \$600) up to \$78.9M (43,869 x \$1,800) each rounded.

Oversight notes that the proposal allows the parent receive an amount equal to one hundred percent of the taxpayer's eligible education expenses incurred for educating a child at a home school, except that the amount of the tax credit claimed per student shall not exceed the state adequacy target, as defined in section 163.011.

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Oversight notes current state adequacy target (SAT) is \$6,375 (provided by DESE, see comments below).

Oversight notes the estimated amount of home schooled students, while providing the maximum amount of \$6.375 SAT, is \$279,665,590 (43,869 x \$6,375). However, for purpose of this fiscal note, Oversight assume that the average homeschooling parent would not spend the allowable amount of SAT per child.

Therefore, **Oversight** will range the impact of the Home School Expenses Tax Credit from \$26.3 million to \$78.9 million in the fiscal note.

Oversight notes that this the number of children who are homeschooled in Missouri could reach higher percentage, and therefore, higher expenditures, when considering other studies available in public domain.

Oversight notes that the lower percentage presented by the NHERI at 3.98% would deem the DOR's request for three additional FTE reasonable. Therefore, Oversight will note the DOR's request for 3 Associate Customer Service Representatives at \$31,200 annually in the fiscal note plus other expenses related to the change of forms for this tax credit.

Section 163.420 Parent Choose Where School Funding Goes

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

Section 163.420.1 RSMo changes state aid for transferring students and requires the Treasurer's Office to remit state aid that DESE approves at this time.

The legislation describes directing state aid that would be used to educate a child to a qualified school of the family's choice. State aid is later defined as the lesser of the State Adequacy Target (SAT) or the qualified school's tuition. The SAT is not equivalent to state aid – it represents a combination of state and local funds. As defined in this legislation the state would be required to remit the SAT, currently \$6,375, to schools for transferring students. DESE estimates this could increase the state cost per pupil for transferring students by approximately \$2,000 (or higher). For every 100 students who transfers the increase to state cost would be approximately \$200,000. DESE assumes between 100 and 1,000 students may transfer under this opportunity, however the total transfers could be greater.

DESE assumes that if the Treasurer's office is required to remit these payments it will not affect the current system DESE uses to calculate payments. However, if DESE is required to remit payments it will require OA-ITSD to make changes to the current system. These costs could be up to \$250,000 based on prior estimates.

Officials from the **Department of Revenue (DOR)** note:

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Section 163.420 Parent Choose Where School Funding Goes

Starting with the 2023-2024 school year, each parent can choose where their child attends school. Under this proposal a school is defined as a charter school, public school, private school, or a virtual school. Upon notification of the school district of the intent for a child to attend a school for the school year, the state aid for that child will be transferred to the attending school.

The Department notes DOR is not involved in the assessment or distribution of the state aid and therefore this will not fiscally impact the DOR.

Oversight notes the proposal allows, beginning 2023-2024 school year, for each parent or guardian of a child between the ages of seven years and the compulsory attendance age for the district, the opportunity, and at the time of enrollment, to direct that state aid to be remitted to a qualified school of the parent or guardian's choice.

Oversight notes this section states that the qualified student shall not be enrolled in a charter school, except for qualified students that are in the custody of the state. Oversight further notes "Qualifying School" is defined as a charter school, a private school, a public school, or public or private virtual schools that are incorporated in Missouri.

Oversight notes the proposal specifically allows a child between the ages of seven years and the compulsory attendance age for the district to be able to take advantage of transfer. Therefore, Oversight assumes for purpose of the fiscal note, that most of the children attending kindergarten are less than 7 years old and exclude them from below calculations.

Oversight notes that DESE provided additional information and noted the total cost for kindergarten was \$26,084,589 in 21-22 school year. Subtracting that from our total foundation expenditures gives us \$3,444,438,679 in program expenditures.

Oversight notes that according to <u>2022 DESE Budget</u> state funding, less the kindergarten money, was \$3,444,438,679. Upon further discussion with DESE, it was shown that the regular term ADA, excluding kindergarten children from the amount, was equal to 772,811.5233.

Oversight assume state revenue per pupil in 2022 by regular term ADA <u>was \$4,457</u> (\$3,444,438,679/772,811.5233)

Oversight notes the difference between the average state funding per pupil and SAT (State Adequacy Target), currently \$6,375, is **\$1,918** (rounded to nearest dollar). Therefore, the most the school district will pay is the maximum of \$1,918 for each pupil transfer (\$6,375 – \$4,457)

Oversight notes that there is currently no local available statistical projections of how many pupils currently are seeking to relocate to alternate schools throughout various school districts in Missouri; however, according to the recent article from the Education Next.org three of the alternatives to district schools—charter, private, and homeschool—appear to have gained from the shift away from the district school. The private-school share ticked up to 10% in 2022, as

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compared to 8% in spring 2020. The charter-school share climbed to 7% from 5% over the same period. Additional <u>study</u> notes that 2,150 students enrolled to the virtual schools across Missouri in 2021.

Oversight notes the study above shows an average increase of student percentage increase in 2020 to 2022 as follow:

- a) Public schools to private 8% to 9.7% (1.7%)
- b) Public schools to charter 5% to 7.2% (2.2%)
- c) Public schools to virtual schools 2150 students
- d) Public school to public schools 76.5% to 81% (4.5%)

Oversight notes that total percentage of students migrating from public schools to other type of school was an average of 4% ([1.7+2.2+4.5]/ 2 rounded) per year.

Oversight notes according to the latest data, from 2021 U.S. Census, there were 950,495 children 7 years old and the compulsory attendance age in various Missouri school districts (as perimeter for age set by the proposal). Therefore, there could be up to **38,020** (950,495 x 4%) children who would be eligible for the money in various transfer throughout districts.

Oversight notes that the proposal specifies that "state aid" shall mean the <u>lesser</u> of the state adequacy target for the student or the amount of tuition at the qualified school.

Oversight estimates the potential impact (using the 4% in transfers from public to private school (from study presented above) could have potential negative impact of \$72,922,360 (38,020 x \$1,918) to various school districts in Missouri.

Oversight notes that to show potential maximum loss of school district funds possible, for purpose of this fiscal note, Oversight assumes that all children who are leaving districts would choose a school outside of the district.

Oversight will include additional impact of \$4,123,700 representing 2,150 students leaving school district to enroll at virtual school.

Oversight will show a range of \$0 (representing no students transferring outside of the districts) to \$77,046,060 (\$72,922,360 + \$4,123,700) of potential savings to the general revenue and loss of School Districts money revenue (for children who transfers to other school districts and private schools).

Additionally, **Oversight** will note savings in general revenue in amount of \$179,037,690 (\$4,457*(38,020 + 2,150)) average payment from district per child for all the children transferring from districts to private entities schools and virtual schools, and at the same time a loss of \$256,083,750 in general funds. (Net loss to GR & School Districts of \$77,046,060)

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Oversight notes that if the proposal would allow the kindergarten age children to be able participate in this program the savings and loss to general revenue would be greater as shown below:

The DESE statistics for kindergarten children in $\underline{2022}$ – show there were 2572 (64,304 x 4%) with eligibility to transfer to various school districts.

Regular ADA – **837,115** rounded (772,811.5233+64304)

STA including kindergarten children is **3,470,523,268** (\$26,084,589 + \$3,444,438,679)

Average STA per child \$4,146 (\$3,470,523,268 / 837,115)

Savings to GR - \$10,663,512 (\$4,146*2572)

Loss to GR - \$16,663,512

Net Loss to GR - \$5,732,988 therefore, loss to various school districts.

Therefore, **Oversight** notes that if kindergarten children were allow for the transfers the costs and savings to general revenues and school district funds would be higher.

Oversight notes, even as this proposed legislation may reduce the number of students educated by public school districts, public school districts may not immediately reduce their fixed and variable costs proportionately, including buildings and staff.

Oversight notes the negative and positive amount(s) reported above could be lesser or higher depending on additional variables such as percentage of pupils transfers from public school to private virtual schools or other public virtual schools. Additionally, the above fiscal impact does not include future trends and growth of pupils transferring from public schools to other schools venues outside of the district or within.

Oversight notes the proposal, in this Section, requires that State Treasurer's Office:

- a) Shall create and provide to each school district a form for use by a parent or guardian
- b) Receive the completed form from school district
- c) Upon receipt of the form, the state treasurer shall remit, within thirty days, state aid under this chapter to the qualified school chosen by the parent

Oversight will assume the Treasurer will potentially need some FTE to assure the proper processes and additional expenses to create proper forms. Therefore, Oversight will note negative unknown impact including salaries, fringe benefits, with equipment and expenses to Other State Funds (STO) in the fiscal note.

STATE SCHOOLS MONEY FUND			
GENERAL REVENUE FUND	<u>(\$190,048)</u>	(\$156,124,829)	(\$156,127,469)
ESTIMATED NET EFFECT ON	Could exceed	<u>Could Exceed</u> (\$103,524,829) <u>or Up to</u>	Could Exceed (\$103,527,469) or Up to
FTE Change – DOR	(Unknown)	(Unknown)	(Unknown)
Total Cost – DOR	(Unknown)	(Unknown)	(Unknown)
Equipment & Expense	(Unknown)	(Unknown)	(Unknown)
Fringe Benefits	(Unknown)	(Unknown)	(Unknown)
Costs – STO – Section 135.1675 - p. 9 Personnel Services	(Unknown)	(Unknown)	(Unknown)
FTE Change – DOR	3 FTE	3 FTE	3 FTE
Total Cost – DOR	(\$190,048)	(\$178,769)	(\$181,409)
Equipment & Expense	(\$44,629)	(\$1,711)	(\$1,745)
Fringe Benefits	(\$67,419)	(\$81,586)	(\$82,283)
Costs – DOR – FTE Section 135.1675 - p. 3-6 Personnel Services	(\$78,000)	(\$95,472)	(\$97,381)
Costs DOP ETE Section 125 1675		(**************************************	(*====;===;===)
Cost - Section 163.420 Parents Chose School Funding (p.8)	\$0	\$0 to (\$256,083,750)	\$0 to (\$256,083,750)
Chose School Funding (p.8)	\$0	\$0 to \$179,037,690	\$0 to \$179,037,690
Savings – Section 163.420 Parents			
Homeschool Expense Tax Credit(p.3-6)	\$0	(\$26,300,000) Up to (\$78,900,000)	(\$26,300,000) Up to (\$78,900,000)
Revenue Reduction – Section 135. 1675			
GENERAL REVENUE FUND			
TISCAL INITACT State Government	(10 Mo.)	11 2023	1 1 2020
FISCAL IMPACT – State Government	FY 2024	FY 2025	FY 2026

Savings to Foundation Formula			
Avoidance – Section 163.420 Parents	\$0	\$0 to	\$0 to
Chose School Funding (p.6-8)		\$77,045,676	\$77,045,676
Loss to various school districts—			
Section 163.420 Parents Chose School		<u>\$0 to</u>	<u>\$0 to</u>
Funding (p.6-8)	<u>\$0</u>	(\$77,045,676)	(\$77,045,676)
ESTIMATED NET EFFECT ON			
STATE SCHOOLS MONEY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
Loss of funds – Section 163.420 Parents Choose School Funding (p.6-8) transfer of funds from various school districts for pupils who chose private, charter, or virtual private schools	\$0	Less or Could Exceed (\$77,046,060)	Less or Could Exceed (\$77,046,060)
ESTIMATED NET EFFECT ON LOCAL POLITICALS SUBDIVISIONS	<u>\$0</u>	Less or Could <u>Exceed</u> (\$77,046,060)	Less or Could <u>Exceed</u> (\$77,046,060)

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

This act creates a refundable tax credit for a taxpayer in an amount equal to one hundred percent of the taxpayer's eligible education expenses incurring for educating a child at a home school. The annual amount of the tax credit shall be not exceed the state adequacy target.

Beginning with the 2023-24 school year, each parent or guardian of a child shall be afforded the opportunity at the time of school enrollment to direct that state aid for educating the child that would be used to educate the child at a school within the school district of residence shall be

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remitted to a qualified school, as defined in the act, of the parent or guardian's choice, if the parent or guardian chooses a school outside of the district of residence. A parent or guardian may choose to enroll their student at a different school within the school district of residence.

The State Treasurer shall create and provide to each school district a form for use by the parent or guardian at the time of enrollment to indicate the parent or guardian's choice as to the school their student will attend for that school year. The school district shall transmit the form to the State Treasurer. The school district shall also notify the Department of Elementary and Secondary Education.

Upon receipt of the form, the State Treasurer shall remit state aid that would have been remitted to the school district of residence to the school chosen by the parent or guardian if such school is outside of the school district of residence. If the student enrolls in a school outside of the school district of residence, the student shall not be counted in the resident school district's weighted average daily attendance as a resident student.

The state aid remitted to the school of choice shall be the lesser of the state adequacy target for the student or the amount of tuition at the qualified school.

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 Revenue
Department of Elementary and Secondary Education

Julie Morff Director

January 23, 2023

Ross Strope Assistant Director January 23, 2023