

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1124S.04C
 Bill No.: SCS for SB 81
 Subject: Education, Elementary and Secondary; State Treasurer
 Type: Original
 Date: February 6, 2023

Bill Summary: This proposal authorizes parents to choose the school that their children attend.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(Unknown – could exceed \$250,000)	\$0 or Less or Could Exceed (\$77,296,060)	\$0 or Less or Could Exceed (\$77,296,060)
Total Estimated Net Effect on General Revenue	(Unknown – could exceed \$250,000)	\$0 or Less or Could Exceed (\$77,296,060)	\$0 or Less or Could Exceed (\$77,296,060)

***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 <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

*State School Moneys Fund - Cost avoidance and loss of \$0 to approximately \$179 million annually and net to \$0.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue - STO	Unknown	Unknown	Unknown
Total Estimated Net Effect on FTE	Unknown	Unknown	Unknown

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 2024	FY 2025	FY 2026
*Local Government	\$0	\$0 to More or Less than (\$179,037,690)	\$0 to More or Less than (\$179,037,690)

*Oversight is uncertain how many students transferring out of resident public districts would transfer into non-resident public districts rather than private schools. In aggregate, the loss of foundation formula dollars to resident districts would be off-set to some extent depending on the number of students transferring into non-resident public school districts.

FISCAL ANALYSIS

ASSUMPTION

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:

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 to the DOR.

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the Section 163.420 allows a parent to choose where school funding goes. If a student transfers to a school district outside of their district of residence, existing state aid would follow the student to their new qualified school. Though this may have an impact on individual school districts, this does not have a direct impact on TSR.

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 total foundation expenditures gives \$3,444,438,679 in program expenditures.

Oversight notes that according to [2022 DESE Budget](#) 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 was \$4,457 (\$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 available statistical projection 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 schools. The private-school share ticked up to 10% in 2022, as compared to 8% in spring 2020. The charter-school share climbed to 7% from 5% over the same period. Additional [study](#) notes that 2,150 students enrolled to the virtual schools across Missouri in 2021.

Oversight notes, based on [information](#) from the Iowa Department of Education’s open enrollment program, approximately **38,965 or 8%** of students transferred out of a resident school district into a non-resident school district.

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** ($950,495 \times 4\%$) 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 lesser 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 ($38,020 \times \$1,918$) 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** ($\$4,457 \times (38,020 + 2,150)$) average ADA savings to foundation formula for students no longer attending resident public school districts, and at the same time a loss (payment to school districts for students now attending non-resident public school districts, charter schools, private schools, or virtual schools at \$6,375 per child) of **\$256,083,750** ($6,375 \times (38,020 + 2,150)$) in general funds. (Net cost to GR \$77,046,060)

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 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 assumes school districts could potentially experience a loss of federal funds for students that are transferring out of resident public school districts. Oversight will show a range of impact of \$0 (no loss) up to an unknown loss of federal funds.

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 school 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

Officials from the **Office of the State Treasurer** did not respond to our request for fiscal impact.

Oversight will assume the Treasurer will potentially need additional FTE and IT/programming costs to assure the proper processes and additional expenses to create proper forms. Therefore, Oversight will note negative unknown impact (exceeding \$250,000) per year including salaries, fringe benefits, equipment, ITSD costs, and expenses to Other State Funds (STO) in the fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Savings – Section 163.420 average ADA savings to foundation formula for students no longer attending resident districts (p.5)</u>	\$0	\$0 to \$179,037,690	\$0 to \$179,037,690
<u>Cost - Section 163.420 – SAT payment to school districts for students now attending non-resident districts (p.5)</u>	\$0	\$0 to (\$256,083,750)	\$0 to (\$256,083,750)
<u>Costs – STO – Section 135.1675 - p. 9</u>			
Personnel Services	(Unknown)	(Unknown)	(Unknown)
Fringe Benefits	(Unknown)	(Unknown)	(Unknown)
Equipment & Expense	(Unknown)	(Unknown)	(Unknown)
<u>Total Cost – DOR</u>	<u>(Unknown – could exceed \$250,000)</u>	<u>(Unknown – could exceed \$250,000)</u>	<u>(Unknown – could exceed \$250,000)</u>
<u>FTE Change – DOR</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown – could exceed \$250,000)</u>	<u>\$0 or Less or Could exceed (\$77,296,060)</u>	<u>\$0 or Less or Could Exceed (\$77,296,060)</u>
STATE SCHOOLS MONEY FUND			
<u>Savings to Foundation Formula Avoidance – Section 163.420 average ADA savings to foundation formula for students no longer attending resident districts (p.6-8)</u>	\$0	\$0 to \$179,037,690	\$0 to \$179,037,690
<u>Loss to various school districts– Section 163.420 SAT payment to school districts for students now attending non-resident districts (p.5,6)</u>	\$0	(\$0 to \$179,037,690)	(\$0 to \$179,037,690)
ESTIMATED NET EFFECT ON STATE SCHOOLS MONEY FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> – of foundation formula dollars for students no longer attending resident districts (p.5,6)	\$0	(\$0 to \$179,037,690)	(\$0 to \$179,037,690)
<u>Loss</u> - potential loss of federal funds for resident school districts	\$0	\$0 to (Unknown)	\$0 to (Unknown)
<u>Gain</u> - in SAT or tuition payments to non-resident districts or charter schools	\$0	\$0 to Unknown, Could be substantial	\$0 to Unknown, Could be substantial
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0 to More or Less than (\$179,037,690)</u>	<u>\$0 to More or Less than (\$179,037,690)</u>

* Oversight is uncertain how many students transferring out of resident public districts would transfer into non-resident public districts rather than private schools. In aggregate, the loss of foundation formula dollars to resident districts would be off-set to some extent depending on the number of students transferring into non-resident public school districts.

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

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 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.

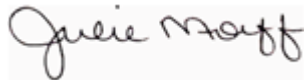
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

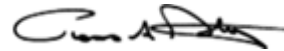
Department of Revenue
Department of Elementary and Secondary Education
Office of Administration – Budget & Planning

NOT RESPONDING:

Office of the State Treasurer



Julie Morff
Director
February 6, 2023



Ross Strobe
Assistant Director
February 6, 2023