

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3565S.06C
 Bill No.: SCS for HCS for HB 1552
 Subject: Children and Minors; Education, Elementary and Secondary: Department of
 Elementary and Secondary Education
 Type: Original
 Date: March 30, 2022

Bill Summary: This proposal modifies 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)	(\$46,714)	(\$47,882)	(Could exceed \$47,882)
Total Estimated Net Effect on General Revenue	(\$227,875)	(\$46,714)	(\$47,882)	(Could exceed \$47,882)

*ITSD services to modify a number of School Finance formulas and calculations

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

*Transfers between School Districts and Charter Schools 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 formulas 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.

Oversight will show the ITSD costs as estimated by DESE for a previous, similar proposal.

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 transfer of funds. This is in addition to the amounts currently paid 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.

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

Oversight assumes this proposal 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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assumed this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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</u>	(\$227,875)	(\$46,714)	(\$47,882)	Could exceed (\$47,882)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$227,875)</u>	<u>(\$46,714)</u>	<u>(\$47,882)</u>	(Could exceed \$47,882)

<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 - 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 - pg.5	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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

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.

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

This proposal 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.

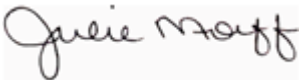
This proposal states section 160.415 shall be known as the Charter School Funding Act and states the act shall be nonseverable.

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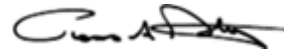
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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 30, 2022



Ross Strobe
Assistant Director
March 30, 2022