

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4786-03
Bill No.: SB 581
Subject: Education, Elementary and Secondary Education; Elections; Elementary and Secondary Education Department; Boards, Commissions, Committees, Councils; Retirement - Schools; Kansas City; General Assembly
Type: Original
Date: January 31, 2012

Bill Summary: This proposal modifies provisions relating to school district boundary line changes, school accreditation, and employment of retired teachers under certain circumstances.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)
Total Estimated Net Effect on General Revenue Fund	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
State School Moneys Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Transfers In and Out could be \$0 or Up to Unknown to (Unknown)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	\$0 or Up to Unknown to (Unknown)	\$0 or Up to Unknown to (Unknown)	\$0 or Up to Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Senate** state this proposal either has no fiscal impact as it relates to their agency or minimal costs which can be absorbed by present appropriations.

Officials from the **Missouri House of Representatives** state this proposal will have no fiscal impact on their agency.

§162.041 & 162.431.1

Officials from the **Platte County Board of Elections** state there would be direct costs to the Board of Elections and costs for an election for any school board conducting an election. Costs per election would range from \$50,000 to \$60,000, depending upon the size of the school district (i.e., number of registered voters) and the number of other participants involved in any specific election, as costs would be pro-rated based upon the number of registered voters within each district.

Oversight assumes unknown election costs to school districts in the event elections are held.

§162.162.082.1, 162.082.2 & 162.082.3

Officials from the **Department of Elementary and Secondary Education (DESE)** assume that since the school district defined by this section is paid as a hold-harmless school district, rather than a formula district, there should be no increase in cost to the state as long as the district remains intact and services from other districts are on a contractual basis.

Officials from the **Center School District** assume that if the cost of educating students through the contracted financial arrangement would be about the same as it would be if Kansas City were doing it, Center's additional cost above what would be allocated would be \$250,000 per 100 students.

Oversight assumes this provision of the proposal is permissive, and therefore, will assign no fiscal impact.

§162.082.8

DESE assumes the statutory change has no fiscal impact on the state. It is unknown whether the district would have sufficient funds or would have to retire bonds. State funding could be required to pay the bonds, or the contractual arrangement could be delayed.

ASSUMPTION (continued)

§162.082.10

DESE assumes an unknown fiscal impact would develop once an annexation vote was held and students began to be counted in the district to which they adjoin. This increase is directly related to shifting them from a hold-harmless WADA to a formula WADA.

§162.082.11 & 162.082.12

According to officials from the **Public School Retirement System (PSRS)**, working after retirement limits in §169.560 and the special vesting provisions in §169.561 do not apply to a PSRS retiree that is working within the unaccredited KC school district boundaries even though said retiree would be employed by a PSRS-covered school district. Therefore, this proposed legislation provides a geographic exception to the PSRS working after retirement limits and as such there are no contributions made on the salary earned based upon said employment. This proposal would be treating two similarly situated individuals differently; this could also create an equal protection issue for PSRS. Furthermore, PSRS would not be collecting any contributions based on that employment. For the school year 2010-2011, PSRS had over 6,467 retirees working after retirement and didn't collect contributions on more than \$50.4 million in earnings. For the school year 2010-2011, PEERS had over 1,575 retirees working after retirement and didn't collect contributions on more than \$6.8 million in earnings.

§162.082.14

DESE assumes there likely could be a fiscal cost to the state due to the winding down of a retirement system and the need to deal with unfunded liabilities. This will not be known however, until the study has been completed by the Joint Committee on Public Employee Retirement.

Officials from the **Joint Committee on Public Employee Retirement (JCP)** stated their review of this proposal indicates that provisions associated with the Public School Retirement System of the City of Kansas City would indicate a “substantial proposed change” in future plan benefits as defined in §106.660 (10) due to the results of the actuarial cost statement supplied by the system. Such cost statement indicated “the plan would become insolvent in less than 30 years’ under the provisions of this proposed legislation with certain assumptions being made.

The provisions associated the JCP could result in costs ranging between \$35,000 and \$50,000 for actuarial services.

ASSUMPTION (continued)

Officials from the **Kansas City Public School Retirement System (KCPSRS)** state the short term fiscal impact would be modest, but would have a severe negative impact on the Plan's funded status over time.

Without any legislative or structural changes in the KCPSRS membership, KCPSRS officials expect the plan to return to fully funded status through normal operations in approximately 20 years. With this proposed legislation, the system would not return to full funding and would become insolvent in less than 30 years.

In the first year there would be a modest improvement in funded status, due to members who might ultimately qualify for retirement benefits based on future salaries terminating and only receiving refunds or deferred annuities. Afterwards, the system suffers as the lost contributions from those no longer participating exceeds their eliminated pension accruals.

With this proposal, expected funded status over the next three fiscal years would be 87.6%, 86.7%, and 85.6%.

KCPSRS assumptions were based on the following:

- The entire school district, including charter schools, would be contracted out to neighboring districts;
- No new hires that the school district or charter schools would enter KCPSRS;
- Library and retirement system staff, including new hires, would continue to participate in KCPSRS; and,
- Existing staff at the school district would be replaced, however existing staff at charter schools would be retained.

§162.431 & 163.087

Officials from **DESE** assume an unknown fiscal impact could develop if an annexation vote was held and students transferred from a hold-harmless Weighted Average Daily Attendance (WADA) to a formula WADA.

DESE assumes this provision carries both an unknown cost and an unknown savings. If an annexation vote was successful with an adjoining district in the Kansas City School District (KCSD) and if the vote resulted in only one student moving from KCSD to an adjoining district, the potential savings to the state could be \$10,123,445. That potential savings could be realized in both FY13 & FY14.

There is a potential saving of \$10,123,445 at the outset because the KCSD could no longer use

ASSUMPTION (continued)

the first or second preceding year WADA count in their numbers. That savings however would be consumed by the receiving districts which would be allowed to double count all students transferring due to the annexation. Whatever the additional unknown costs are under this provision, the impact would cease after two years.

If however, 1,950 students moved to adjacent districts, the cost would exceed the savings. If all the district was annexed to adjacent districts, the potential cost would be \$74,746,750 in FY 13 and in FY14 increase to \$97,658,589 due to the increase of the state adequacy target that goes into effect that fiscal year.

In addition, DESE assumes there is another potential significant fiscal impact due to this provision. Currently the KCS D receives \$4,059 per WADA because they are in a hold-harmless district. If these students shifted to formula districts, in FY13 the call per WADA would be \$6,949 per WADA and in FY14 it would be \$7,266 per WADA. The increase is due to two reasons: (1) the adequacy target will increase in both years; (2) Center is the only hold-harmless district that adjoins the KCS D and in FY13 Center would go on the formula if they picked up 151 additional WADA. In FY14 Center would go on the formula after they pick up only two students.

DESE assumes that overall, depending on elections, four school districts could be advantaged and 518 districts could be at a disadvantage without full funding of the formula.

Oversight assumes fiscal impact will be dependent on whether or not school districts hold elections as provided in this proposal. If no elections are held or the proposal is defeated by all parties, the fiscal impact would be \$0. If elections are held and students are affected by transfers there could be Unknown Savings to (Unknown Costs). It is unknown how many students would ultimately be affected. For fiscal note purposes only, **Oversight** will range fiscal impact as \$0 or Unknown Savings to (Unknown Costs).

Officials from the **Independence School District** assumed no fiscal impact to their district.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE			
<u>Savings/Cost</u> - Department of Elementary and Secondary Education - School Funding	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)	\$0 or Up to Unknown Savings to (Unknown Costs)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or Up to Unknown Savings to (Unknown Costs)</u>	<u>\$0 or Up to Unknown Savings to (Unknown Costs)</u>	<u>\$0 or Up to Unknown Savings to (Unknown Costs)</u>
STATE SCHOOL MONEYS FUND			
<u>Transfer In</u> - General Revenue - School Funding	\$0 or Up to Unknown	\$0 or Up to Unknown	\$0 or Up to Unknown
<u>Transfer Out</u> - Distribution to Schools	\$0 or Up to (Unknown)	\$0 or Up to (Unknown)	\$0 or Up to (Unknown)
ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - School Districts - Increased school funding	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - School Districts - Election Costs	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Loss</u> - School Districts - Decreased school funding	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (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 act modifies provisions relating to changes in school district boundary lines.

§162.041 & 162.431 – ADJUSTMENT AND APPORTIONMENT OF SCHOOL PROPERTY

Current law requires the school boards of school districts for which a boundary line change occurs to make a just and proper adjustment and apportionment of all school property. When an election is to occur to decide whether to change school district boundary lines under §162.431, this proposal requires the affected school districts to make a preliminary adjustment and apportionment of the districts' property at least sixty days prior to the election. If the districts cannot agree on a preliminary adjustment and apportionment, the State Board of Education must appoint a three person board of arbitration to determine the preliminary apportionment and adjustment. If the boundary line change occurs and the districts cannot agree when making the apportionment and adjustment and a board of arbitration is appointed, the board must follow the preliminary apportionment and adjustment unless new and significant circumstances exist.

FISCAL DESCRIPTION (continued)

§162.081, 162.082 & 167.131 – KANSAS CITY SCHOOL DISTRICT

This portion of the proposal allows the State Board of Education to assume responsibility and general supervision of the Kansas City School District after classifying it as unaccredited. The State Board may enter into contracts with other school districts or education providers, in order of preference as described in the proposal, to deliver education programs to residents of the district. The State Board will create attendance boundaries for contracted portions of the district. Any district or education service provider that contracts with the State Board will have the right to employ teachers and set their compensation.

Local tax revenues of the district will be distributed to contracted portions of the district in the same ratio as the pupil count of the contracted portions to the pupil count of the entire district. In addition, state aid, as described in the proposal, will be distributed to contracted portions of the district in a manner consistent with the current year weighted average daily attendance of each contracted area. This proposal contains requirements for lease purchase of school facilities, district fund balances, and unallocated qualified school construction bonds.

The proposal exempts the Kansas City School District from the provisions of §167.131 at any time when the State Board of Education has entered into contracts with other school districts or education service providers.

§162.082 – RETIREMENT SYSTEMS AND RETIRED TEACHERS

Current members of the Kansas City Public School Retirement System who become employed in a contract portion of the Kansas City School District will remain members of the system. In addition, any employee currently a member of the Public School Retirement System of Missouri who becomes employed in a contract portion of the district will remain a member of that system. Retired members of either the Kansas City Public School Retirement System or the Public School Retirement System of Missouri may be employed in a contract portion of the district and will not be subject to the existing limits on hours and compensation for retired teachers who return to work.

The Joint Committee on Public Employee Retirement must contract with an actuary to conduct an actuarial audit of the Kansas City Public School Retirement System.

DESCRIPTION (continued)

§162.431 – SCHOOL DISTRICT BOUNDARY LINE CHANGES

This section modifies the effective date of a boundary line change. Instead of the change being effective from the date of the election, the change would be effective at the beginning date of the next school year.

When one district votes in favor of the boundary line change and one district votes against the change and a board of arbitration is appointed by the State Board of Education to determine whether to make the change, the board of arbitration must base its decision on the current accreditation status of each affected district. The Board of Arbitration would determine the boundary line change in a manner that moves students out of unaccredited and provisionally accredited districts and into accredited districts. If each district is accredited, the Board of Arbitration must use the existing factors in the statute to make its decision.

After a boundary line change occurs, for the next three school years, the receiving district may, but will not be required to, include the statewide assessment scores for any students it receives in the district's scores.

If a boundary line change results in a charter school being located in a district other than Kansas City or St. Louis, the local school district and charter school's governing board may enter into an agreement to incorporate the charter school into the district and operate it as a regular school building of the district.

§162.431 – WEIGHTED AVERAGE DAILY ATTENDANCE FOR DISTRICTS AFFECTED BY A BOUNDARY LINE CHANGE

When a school district gains enrollment because of a boundary line change, during the two school years following the change, its weighted average daily attendance figure will be adjusted so that it receives twice the weighted average daily attendance for any students it received as a result of the boundary line change.

When a school district loses student enrollment because of a boundary line change, during the school year following the line change, it may only submit an estimate of the weighted average daily attendance for the current year. During the second year following the line change, it may submit an estimate of the weighted average daily attendance for the current year or the weighted average daily attendance for the immediately preceding year, whichever is greater. During the third year following the line change, it may submit an estimate of the weighted average daily attendance for the current year or the weighted average daily attendance for the immediately

FISCAL DESCRIPTION (continued)

preceding year, or the weighted average daily attendance for the second preceding school year, whichever is greater.

§163.087 – SCHOOL DISTRICT TRUST FUND (PROP C FUNDS)

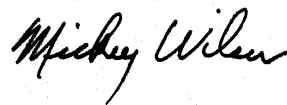
When a change in school district boundary lines occurs under section §162.431, the Department of Elementary and Secondary Education must modify the school district trust fund payments to the affected school districts during the first academic year in which the boundaries are changed to reflect the current weighted average daily attendance count. In subsequent years, districts' payments will be determined by the first preceding weighted average daily attendance count.

This proposal contains an emergency clause.

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
Public School Retirement System
Joint Committee on Public Retirement
Kansas City Public School Retirement System
Missouri Senate
Missouri House of Representatives
School Districts
 Independence
 Center
Platte County Board of Election Commissioners



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Director
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