

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2230-03
Bill No.: SCS for SB 465
Subject: Contracts and Contractors; Education, Elementary and Secondary; Elementary and Secondary Education, Department of; Mortgages and Deeds
Type: Original
Date: April 1, 2019

Bill Summary: This proposal prohibits the Department of Elementary and Secondary Education from limiting the reimbursement rate to school districts for early learning program facility lease agreements.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
General Revenue	\$0 to (Could exceed \$5,534,490)	(\$954,160 to Could exceed \$7,815,807)	(\$954,160 to Could exceed \$8,513,449)	(\$954,160 to Could exceed \$10,548,218)
Total Estimated Net Effect on General Revenue	\$0 to (Could exceed \$5,534,490)	(\$954,160 to Could exceed \$7,815,807)	(\$954,160 to Could exceed \$8,513,449)	(\$954,160 to Could exceed \$10,548,218)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
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 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
Total Estimated Net Effect on FTE	0	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
Local Government	\$0 to Could exceed \$5,534,490	(\$954,160 to Could exceed \$7,815,807	\$954,160 to Could exceed \$8,513,449	\$954,160 to Could exceed \$10,548,218

FISCAL ANALYSIS

ASSUMPTION

Officials from **Department of Elementary and Secondary Education (DESE)** assume the proposed legislation targets lease agreements from the time period beginning July 1, 2019, through August 28, 2024. Those lease payments are reimbursed by the department one year in arrears; therefore, the fiscal impact will be shown beginning in FY 21 continuing through FY 26.

By extending the deadline to determine the maximum allowable cost, this proposal will result in additional costs to General Revenue (GR). The following charts show the amount of the lease payment impacted for each lease identified to be in effect prior to March 2, 2015.

School District Name	Current Lease	Maximum Allowed under Funding Formula	Fiscal Impact*
Lamar R-I	\$11,200.00	\$23,400.00	\$0
Columbia 93	\$115,000.00	\$50,880.00	\$64,120.00
Nixa Public Schools	\$875,000.04	\$104,280.00	\$770,720.04
Cameron R-I	\$9,018.00	\$33,000.00	\$0.00
Salem R-80	\$12,600.00	\$53,400.00	\$0.00
Springfield R-XII	\$150,000.00	\$38,400.00	\$111,600.00
Lexington R-V	\$2,664.00	\$15,163.20	\$0.00
McDonald Co. R-I	\$8,500.00	\$36,960.00	\$0.00
Seneca R-VII	\$21,890.00	\$27,000.00	\$0.00
Perry Co. 32	\$2,860.00	\$22,651.20	\$0.00
North Platte Co. R-I	\$8,000.00	\$9,360.00	\$0.00
Bolivar R-I	\$18,700.00	\$28,262.40	\$0.00
Fair Play R-II	\$43,000.00	\$35,280.00	\$7,720.00
Blue Eye R-V	\$5,400.00	\$6,600.00	\$0.00

School District Name	Current Lease	Maximum Allowed under Funding Formula	Fiscal Impact*
Houston R-I	\$13,500.00	\$14,580.00	\$0.00
Nevada R-V	\$8,513.48	\$61,560.00	\$0.00
		Total	\$954,160.04

* Fiscal impact is calculated as the difference between the total amount of the lease less the maximum reimbursement allowed under the formula if the value of the current value of the lease exceeds the maximum allowable reimbursement.

DESE notes this substitute includes the following language in section 162.703: "Nothing in this section shall be construed to prohibit funding for such special education facilities as set forth in section 162.700."

The following chart provides a snap-shot of FY 2020 principal payments based on the original principal of facility purchases. Since DESE pays for these facilities over an 8-year period, the yearly amount of the annual principal payment, over the last 5 years, has ranged anywhere from \$4,465,510 to \$10,000,000 as facilities get added and drop off of the payment schedule.

District Name	Original Principal	Approved Annual Principal Payment
Kirksville	\$2,856,024.24	\$357,003.03
Columbia	\$830,000.00	\$103,750.00
JCPS	\$1,653,629.33	\$206,703.67
Malden R-1	\$244,222.00	\$30,527.75
Washington	\$1,805,623.16	\$225,702.90
Republic R-III	\$707,767.63	\$55,610.31
Springfield	\$3,247,534.00	\$405,942.00
Trenton	\$334,134.18	\$41,766.77
West Plains R-VII	\$298,977.11	\$37,484.81
Grain Valley	\$420,629.00	\$52,578.63

District Name	Original Principal	Approved Annual Principal Payment
Hickman Mills	\$1,319,200.00	\$164,900.00
Carthage	\$3,272,405.72	\$409,050.65
Troy R-II	\$2,007,387.36	\$255,541.41
Hannibal	\$1,948,084.00	\$243,510.50
New Madrid	\$354,156.96	\$44,269.62
Seneca R-VII	\$310,000.00	\$38,750.00
Seneca R-VII	\$54,569.51	\$13,642.38
Seneca R-VII	\$9,120.00	\$2,280.00
Bolivar R-1	\$4,496.45	\$1,124.11
Moberly	\$479,464.96	\$59,933.12
Wentzville	\$4,000,000.00	\$500,000.00
Lindbergh	\$2,565,499.13	\$327,603.53
Clayton	\$865,263.92	\$109,825.18
Ladue	\$2,468,917.85	\$308,614.73
Ritenour	\$1,682,931.60	\$210,366.45
Blue Eye R-V	\$7,042.68	\$1,760.67
Wright City R-II	\$1,512,697.63	\$201,667.43
Warren Co. R-III	\$397,623.99	\$30,461.55
Warren Co. R-III	\$201,112.00	\$25,139.00
Total	\$35,858,514.41	\$4,465,510.20

DESE cannot determine the cost for facility purchases, but estimates based on past expenditures it could cost between \$4 million and \$10 million per year. Various issues inherent with facility purchases are left unanswered: Does the state own the property? Is the state responsible for upkeep and maintenance of the property? Does the state control the construction process and the

ASSUMPTION (continued)

design of the facility? At the rate the Early Childhood Special Education (ECSE) population is growing, can the state afford to fund these facilities? Based on the answer to these unknown questions, the potential to exceed \$10 million per year is highly likely.

In response to a previous version, SB 465 (2019), officials from **Wellsville-Middletown R-1 School District** assumed this proposal would not effect the district directly, though be allowing greater reimbursements to other districts it may reduce the pot of money available to all other schools.

Oversight received a limited number of responses from school districts related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional 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.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other school districts were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

Oversight notes 5 CSR 30-640.200 was filed May 28, 2015, and effective on January 30, 2016. The rule established a funding formula for early learning programs facility lease agreements. Under 5 CSR 30-640.200, those leases in effect before March 2, 2015, were exempt from the funding formula, but as of July 1, 2019, the funding formula would apply to these previously exempt leases. Oversight assumes this proposal extends the exemption for leases in effect before March 2, 2015 through August of 2024. Oversight notes leases are reimbursed two years in arrears; therefore, Oversight will show DESE's estimated cost to general revenue of \$954,160 beginning in FY 2021.

Oversight notes the implementation of 5 CSR 30-640.200 prohibited the reimbursement of facility purchases/construction. Oversight assumes this proposal authorizes the reimbursement of facility purchases.

Oversight estimates DESE will pay \$4,465,510.20 in annual principal payments for facility purchases for FY 2020. Oversight will show a range of impact of \$0 (no additional principal payments) to could exceed \$5,534,490 in additional principal payments (\$10,000,000 - \$4,465,510) in FY 2020 and increasing over time as existing payments drop-off and new ones are added. Below is the estimated impact per fiscal year for facility purchase reimbursements:

ASSUMPTION (continued)

	Existing Principal Reimbursements	Historical Cost of Purchase Reimbursements (Upper Bound - DESE)	Anticipated Impact
FY 2020	\$4,465,510.20	\$10,000,000	\$5,534,489.80
FY 2021	\$3,138,352.93	\$10,000,000	\$6,861,647.07
FY 2022	\$2,440,710.93	\$10,000,000	\$7,559,289.07
FY 2023	\$2,099,097.66	\$10,000,000	\$7,900,902.34
FY 2024	\$1,741,493.20	\$10,000,000	\$8,258,506.80
FY 2025	\$1,070,842.00	\$10,000,000	\$8,929,158.00
FY 2026	\$405,942.00	\$10,000,000	\$9,594,058.00

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
GENERAL REVENUE				
Cost - for increase in facility lease reimbursements	\$0	(\$954,160)	(\$954,160)	(\$954,160)
Cost - for increase in facility purchase reimbursements	\$0 to (Could exceed <u>\$5,534,490</u>)	\$0 to (Could exceed <u>\$6,861,647</u>)	\$0 to (Could exceed <u>\$7,559,289</u>)	\$0 to (Could exceed <u>\$9,594,058</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to (Could exceed <u>\$5,534,490</u>)	(\$954,160 to Could exceed <u>\$7,815,807</u>)	(\$954,160 to Could exceed <u>\$8,513,449</u>)	(\$954,160 to Could exceed <u>\$10,548,218</u>)

**FISCAL IMPACT -
 Local Government**

	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2026)
SCHOOL DISTRICT FUNDS				
<u>Revenue</u> - from increase in facility lease reimbursements	\$0	\$954,160	\$954,160	\$954,160
<u>Revenue</u> - from increase in facility purchase reimbursements	\$0 to Could exceed <u>\$5,534,490</u>	\$0 to Could exceed <u>\$6,861,647</u>	\$0 to Could exceed <u>\$7,559,289</u>	\$0 to Could exceed <u>\$9,594,058</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS	\$0 to Could exceed <u>\$5,534,490</u>	\$954,160 to Could exceed <u>\$7,815,807</u>	\$954,160 to Could exceed <u>\$8,513,449</u>	\$954,160 to Could exceed <u>\$10,548,218</u>

FISCAL IMPACT - Small Business

The proposed legislation could impact those small businesses with lease agreements for early childhood special education programs.

FISCAL DESCRIPTION

Under this act, the Department of Elementary and Secondary Education shall not limit the reimbursement rate to school districts for early learning program facility lease agreements for any lease agreement entered into by a school district before March 2, 2015.

This proposal may authorize the reimbursement of facility purchases.

This act has 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.

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SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Wellsville-Middletown R-1 School District



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April 1, 2019

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April 1, 2019