

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3591S.01I
Bill No.: SB 869
Subject: Education, Elementary and Secondary; Elementary and Secondary Education,
Department of; Teachers
Type: Original
Date: January 28, 2022

Bill Summary: This proposal modifies the calculation of the amount a school district with one or more pupils attending a charter school shall pay to the charter school.

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)	(\$226,154)	Could exceed (\$207,912)
Total Estimated Net Effect on General Revenue	(\$227,875)	(\$46,714)	(\$226,154)	Could exceed (\$207,912)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
Total Estimated Net Effect on <u>Other State</u> 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)
General Revenue	0 FTE	0 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0 FTE	0 FTE	2 FTE	2 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*	\$0	\$0	\$0	\$0

*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 formula's 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.

Section 160.415 (10) (a)

The additional requirements to the annual review performed by the department in subsection (10) (a) could result in the need for additional FTE to perform these extra duties. The department requests 2 FTE at the Assistant Director level to comply.

Oversight will show the FTE costs for annual reviews beginning in FY 2025.

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. This is in addition to the amounts they are currently paying to charter schools that relates to the increase in assessed valuation revenues from last year as well as changes in projected WADA using recent membership count data.

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 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.

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 estimates exclusion of the Merchants' & Manufacturers' Tax from local aid payments would reduce the local aid transfer to charter schools from KCPS to approximately \$3,376,398 annually ($(\$16,511,767 - \$9,749,215) / 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.

In summary, transfers from school districts to charter school are estimated at \$21,439,230 ($\$3,376,398 + \$18,062,832$) beginning in FY 2024 increasing to \$26,290,901 ($\$8,228,069 + \$18,062,832$) in FY 2036.

Oversight assumes this proposal delays the effective start date for local aid payments to charter schools for the retention of local aid for net special education costs until FY 2025.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume 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</u> <u>– State</u> <u>Government</u>	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2037)
GENERAL REVENUE				
<u>Cost – DESE –</u> <u>ITSD services</u> <u>§160.415 - p.3</u>	(\$227,875)	(\$46,714)	(\$47,882)	Could exceed (\$47,882)
<u>Costs - DESE -</u> <u>§160.415</u>				Could exceed...
Personal Service	\$0	\$0	(\$92,120)	(\$92,120)
Fringe Benefits	\$0	\$0	(\$54,436)	(\$54,436)
Exp. & Equip.	\$0	\$0	(\$31,716)	(\$13,474)
<u>Total Costs</u>	\$0	\$0	(\$178,272)	(\$160,030)
FTE Change - DESE - p.3	0 FTE	0 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$227,875)</u>	<u>(\$46,714)</u>	<u>(\$226,154)</u>	Could exceed <u>(\$207,912)</u>
ESTIMATED NET FTE CHANGE ON GENERAL REVENUE	0	0	2 FTE	2 FTE

<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 \$21,439,230)	(Unknown, Could exceed \$21,439,230)	(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 \$21,439,230	Unknown, Could exceed \$21,439,230	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)
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

Starting with the school year beginning on July 1, 2023, this act modifies the calculation of the amount a school district with one or more pupils attending a charter school shall pay to the charter school.

Under this act, provisions of current law setting forth aid payments for charter schools shall only apply to school years ending on or before June 30, 2023.

For school years beginning on or after July 1, 2023, each charter school and each school district responsible for distributing local aid to charter schools shall include as part of their annual independent audit, an audit of pupil residency, enrollment, and attendance in order to verify pupil residency in the school district or local education agency.

A school district having one or more resident pupils attending a charter school shall pay to the charter school an annual amount equal to the product of the charter school's weighted average daily attendance and the state adequacy target, multiplied by the dollar value modifier for the district, less the charter school's share of local effort, plus all other state aid attributable to such pupils, plus 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, per weighted average daily attendance of the charter school. Local aid is defined as all local and county revenue received by the school district and charter schools within the school district, per weighted average daily attendance of the charter school.

A charter school that has declared itself a local educational agency shall receive all state aid calculated under this act from the Department of Elementary and Secondary Education, and all local aid calculated under the act from the school district. A charter school shall receive an annual amount as set forth in the act.

School districts shall withhold from January local effort payments an annual administrative fee for the administrative costs incurred related to the charter schools in the district. The fee shall equal .25% of the sum of the prior year's state aid received by the school district, the prior year's state aid received by the charter schools within the school district, and the prior year's local aid received by the school district and the charter schools within the school district, calculated as described in the act. The Department shall calculate the amount of such fee and publish such calculation by January fifteenth annually.

By December 31st each year, school districts shall transmit to the Department a calculation of monthly local aid owed to the charter school. Failure to transmit the calculation shall result in the district losing the ability to withhold the annual administrative fee. Each month, the school district shall pay the amount of local aid calculated to be owed to the charter school. If any payment of local aid is due, the school district shall make such payments on the twenty-first day of each month, beginning in July of each year. If the school district fails to make timely payments to the charter schools, the Department shall impose any penalty deemed appropriate.

Each school district shall, as part of an annual audit, include a report converting the local aid received from an accrual basis to a cash basis. Such report shall be made publicly available on its district website.

The Department shall be required, under this act, to conduct an annual review of any payments made in the previous fiscal year to determine whether there has been any underpayment or overpayment. Such review shall include a calculation of the amount of local aid owed to charter schools using the first preceding year's annual audit. The school district shall pay to the charter school the amount calculated by such review. In the event of an underpayment, the school district shall remit the underpayment amount to the charter school. In the event of an overpayment, the charter school shall remit the overpayment amount to the school district. If the school district or charter school fails to remit any required payment, the Department shall impose any penalty deemed necessary.

If a prior year correction of the amount of local aid is necessary, the school district shall recalculate the amount owed to the charter school or provide a bill to the charter school for any overpayment amount.

Beginning February 1, 2025, each school district that contains charter schools and each charter school shall, as part of the annual audit provided to the Department, report the number of students with an individualized education plan, the costs incurred for providing special educational services as described in the act, the amount of funds reimbursed for high needs students under current law, and the amount of funds received under the federal Individuals with Disabilities Education Act. On or before February 14th of each year, the Department shall calculate the net cost for providing special educational services for each school district that has charter schools operating within the school district and for each charter school.

From each school district's February local aid payments to charter schools, such district shall withhold the annual administrative fee and the net cost for providing special educational services, as calculated under the act, for the district and each charter with total special educational services costs exceeding total special educational services funding. Each charter school shall be paid the amount withheld as such school's prior year net cost for providing special educational services by February 28th. Remaining local aid funds shall be allocated per weighted average daily attendance to the district and each charter school.

The Department shall adjust the net cost calculation based on the information reported to it under the act. Such adjustments may be based on underreporting or overreporting of the number of students with an individualized education plan, the cost to provide services, failure to draw high needs funds, failure to draw all available Individuals with Disabilities Education Act funds, and costs determined to be excessive by the Department.

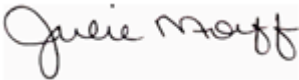
February local aid payments shall not be considered when calculating payments or withholdings from the calculations of February local aid payments.

The bill has a delayed effective date of July 1, 2023.

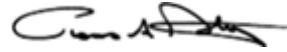
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of the Secretary of State
Joint Committee on Administrative Rules
Kansas City 33 School District



Julie Morff
Director
January 28, 2022



Ross Strobe
Assistant Director
January 28, 2022