

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1912-01
Bill No.: SB 463
Subject: Education, Elementary and Secondary: School Aid
Type: Original
Date: February 28, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$1,383,930)	(\$27,000 to \$17,327,000)
School District Trust	\$0	\$0	\$0
Excellence in Education	\$0	\$0	\$0
State School Moneys	\$0	\$0	\$0
Highway Fund	\$0	\$16,875,000	\$35,100,000
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$15,491,070	\$17,773,000 to \$35,073,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$332,425,000	\$1,631,021,900 to \$1,634,200,000

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **State Tax Commission** stated that the proposal would not affect their agency.

Officials of the Department of Revenue indicated that the Missouri Integrated Tax System (MITS), the Missouri Individual Income Tax System (MINITS) and the Corporate Income Tax System (COINS) would be modified due to the proposal. MITS to reflect an increase in the state sales/use tax rate from 4% to 5% and to increase the education portion of the tax from 1% to 2%; MINITS to change batch and on-line programs to calculate the tax and to provide a new tax table and table messages; and COINS to provide new tax tables. All systems would need complete systems testing.

Officials estimate MITS would require 1,419 hours of programming at a cost of \$49,111; MINITS would require 433 hours of programming at a cost of \$15,696; and COINS would require 173 hours of programming at a cost of \$5,948. Estimated State Data Center (SDC) costs to implement the proposal would be \$13,175.

Officials from the from **Office of Administration-Budget and Planning (COA-B&P)** assume that since the tax increases would have to be approved by the voters, they would not count as Total State Revenues (TSR).

COA-B&P officials assume the increase in the sales tax rate by 1% would take effect January 1, 2003, but there would be a one month lag for the increased collections to show up in state revenue. Therefore, only five months of revenue would be realized in FY 2003. Also according to the constitution, half of motor vehicle sales goes to the Motor Fuel Tax Fund.

Officials of the **Department of Elementary and Secondary Education** indicated that they would not be able to compute the effect of this proposal on the amount of money needed to fully fund the Foundation Formula.

Department officials have not indicated the cost of the provisions concerning minimum salaries for teachers; however, they have responded to similar proposals.

Officials of the Department of Elementary and Secondary Education provided estimates of salary supplement which would have been required had the proposal been in effect for the 2000-01 school year.

Baccalaureate

0-5 yrs	\$25,000	\$9,413,270	(5,088 FTE)
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ASSUMPTION (continued)

6-19 yrs	\$30,000	\$15,168,703	(5,552 FTE)
greater than 19 yrs	\$35,000	\$9,464,661	(2,267 FTE)

Masters or equivalent

greater than 10 yrs	\$35,000	\$7,269,512	(2,167 FTE)
greater than 19 yrs	\$40,000	\$11,823,965	(1,083 FTE)
greater than 29 yrs	\$45,000	\$3,541,418	(517 FTE)

Total State Supplements would have been \$56,681,529.

Approximate local costs would have been \$522,000,000

2001-02 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,000,000 and the state supplement would decrease a similar amount, to about \$44,000,000.

2002-03 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,000,000 and the state supplement would decrease a similar amount, to about \$31,000,000.

2003-04 School Year Estimate

Assuming average increases in teachers' salaries of 2.5% per year, then the cost to school districts would increase about \$13,700,000 and the state supplement would decrease a similar amount, to about \$17,300,000.

It should be noted that actual dollars needed for all years beyond 2000-01 would change because:

- a) the number of teachers in each bracket will change due to retirements and resignations;
- b) teachers gaining additional experience will qualify for different brackets;
- c) replacement teachers may be in different brackets from the teachers replaced; and
- d) individual school boards may agree to increase salaries more or less than the assumed 2.5% per year, which would affect the state salary supplement.

Proposed 163.172.6 seems to make participation in the minimum salary levels (and the state supplements) optional. Increases Public School Retirement System contributions would be a

ASSUMPTION (continued)

local cost:

FY 2001	$\$57,000,000 \times .105 = \$5,985,000$
FY 2002	$\$44,000,000 \times .105 = \$4,620,000$
FY 2003	$\$31,000,000 \times .105 = \$3,255,000$
FY 2004	$\$17,300,000 \times .105 = \$1,816,500$

A condition for receiving the state supplement is that school boards give new employees (teachers) of the district credit for previous years of public school teaching experience. Currently, school boards set policy on the amount of previous experience which would be granted.

DES officials assume the increase in minimum salary requirements would not increase the Career Ladder cost. However, the Career Ladder supplement a teacher may receive cannot be used to meet the minimum salary requirement for that teacher.

Officials also noted that there could be other costs incurred by school districts to qualify for the minimum salary supplement.

A program would need to be written to identify the teachers in each category, the amount of salary supplement required, and the eligibility criteria for receiving the money. Therefore, DESE would incur an IT impact estimated to be \$25,000 in its first year, and 15% estimated maintenance costs for FY 2003 and 2004. Additionally, OIT requires an 8% project development fee for the first year.

The **Oversight Division** calculated fringe benefits at 18.37% to include retirement, FICA, unemployment and worker's compensation on the salary increases. Therefore, school districts' cost for fringe benefits would have been $\$57,000,000 \times .1837 = \$10,470,900$ had the proposal been in effect in FY 2001. Oversight included the net salary increase due to this proposal as an annual cost to school districts beginning in the 2002-03 school year. Costs are ranged because districts do not have to participate in the program.

For fiscal note purposes, Oversight assumes that increased costs to fund the Foundation Formula will be limited to the amount of additional revenue the proposal would bring into the General Revenue Fund. (Otherwise, either Formula payments would be prorated or additional money would be appropriated from the General Revenue Fund to the State School Moneys Fund.)

Advertisement costs for the proposal would be \$4,380 per newspaper column inch for three printings of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2002 general election.

FISCAL IMPACT - State Government
GENERAL REVENUE FUND

FY 2002	FY 2003	FY 2004
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<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
<u>Income</u> - Increased Individual Income Tax Collections	\$0	\$0	\$899,200,000
<u>Income</u> - Increased Corporate Income Tax Collections	\$0	\$0	\$40,900,000
<u>Income</u> - Increased Sales Tax Collections	\$0	\$326,800,000	\$682,400,000
<u>Cost</u> - Transfer to School District Trust Fund	\$0	(\$326,800,000)	(\$682,400,000)
<u>Cost</u> - Transfer to State School Moneys Fund	\$0	\$0	(\$940,100,000)
<u>Cost</u> - Department of Revenue for computer systems modifications	\$0	(\$83,930)	\$0
<u>Cost</u> - Department of Elementary and Secondary Education Expense and Equipment	\$0	\$0	(\$27,000)
<u>Cost</u> - Transfers to Excellence in Education Fund	\$0	\$0	(\$0 to \$17,300,000)
<u>Cost</u> - Secretary of State Newspaper Advertisements	\$0	(\$1,300,000)	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,383,930)</u>	<u>(\$27,000 to \$17,327,000)</u>

SCHOOL DISTRICT TRUST FUND

<u>Income</u> - Transfers from General Revenue Fund	\$0	\$326,800,000	\$682,400,000
<u>Cost</u> - Transfers to State School Moneys Fund	\$0	(\$326,800,000)	(\$682,400,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

STATE SCHOOL MONEYS FUND

<u>Income</u> - Transfers from General Revenue Fund	\$0	\$0	\$940,100,000
<u>Income</u> - Transfers from School District Trust Fund	\$0	\$326,800,000	\$682,400,000
<u>Cost</u> - Distributions to School Districts	\$0	(\$326,800,000)	(\$1,622,500,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

HIGHWAY FUND

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
<u>Income</u> - Increased Sales and Highway Use Tax	\$0	\$16,875,000	\$35,100,000
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>\$0</u>	<u>\$16,875,000</u>	<u>\$35,100,000</u>

EXCELLENCE IN EDUCATION FUND

<u>Income</u> - Transfers from General Revenue Fund	\$0	\$0	\$0 to \$17,300,000
<u>Cost</u> - Distributions to School Districts	\$0	\$0	(\$0 to \$17,300,000)
ESTIMATED NET EFFECT ON EXCELLENCE IN EDUCATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government POLITICAL SUBDIVISIONS</u>	FY 2002	FY 2003	FY 2004
<u>Income</u> - Cities (Sales and Highway Use Taxes)	\$0	\$3,375,000	\$7,020,000
<u>Income</u> - Counties (Sales and Highway Use Taxes)	\$0	\$2,250,000	\$4,680,000
<u>Income</u> - School Districts (Increased Aid from Foundation Formula)	\$0	\$326,800,000	\$1,622,500,000
<u>Income</u> - Aid from Excellence in Education Fund	\$0	\$0	\$0 to \$17,300,000
<u>Cost</u> - Increased Salaries	\$0	\$0	(\$0 to \$17,300,000)
<u>Cost</u> - Fringe Benefits	\$0	\$0	(\$0 to \$3,178,010)
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$332,425,000</u>	<u>\$1,631,021,990</u> <u>to</u> <u>\$1,634,200,000</u>

FISCAL IMPACT - Small Business

Small businesses would be affected by the sales and income tax provisions of this proposal.

DESCRIPTION

This proposal would revise the formula for distribution of state school aid. The new formula would have a "formula base amount per eligible pupil", which would be \$5300 per pupil for FY 2002 and would be adjusted annually by the percentage change in the state average equalized assessed value from the 3rd to 2nd preceding year, and have deductions for local sources of operating revenues.

The proposal would increase the gross receipts (sales\use) tax from 4% to 5%. Proposition C sales taxes and the one-cent increase in sales taxes would be distributed as part of the state sources funding the basic school aid payment.

The proposal would increase individual income taxes by one percent for all brackets and increase the corporation income tax rate from 6 1/4% to 7 1/4%.

The act would require most school districts to have operating levies of at least \$1.25 per \$100 assessed valuation to be eligible for state aid. (Current law requires minimum levies of \$2.75 for districts to receive full state aid.)

The proposal would create a mandatory 5-level minimum salary program, beginning in the 2003-04 school year, funded by a separate categorical appropriation, and an "experienced teacher entitlement". The proposal sets out requirements school districts would meet to qualify for experienced teacher entitlements.

The proposal would change current limits on transfers of moneys from district operating funds to the Capital Projects Fund and would specify that all capital expenditures, including classroom instructional capital expenses, be made from the Capital Projects Fund. It would retain existing transfer authority for existing "lease purchases and allow transportation expenses and area vocational-technical school capital expenses. The "6 cents plus 18 cents times the Guaranteed Tax Base" transfer would be replaced by authority to include up to 12.5 cents of debt service and capital projects levies in the operating levy and place local and state aid based upon that portion of the minimum levy in the corresponding fund. Transfers would be allowed whether or not funds are spent in the current year.

This proposal contains a referendum clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. The proposal would not affect Total State Revenue.

SOURCES OF INFORMATION

GVB:LR:OD (12/00)

Office of Administration - Division of Budget and Planning
Department of Revenue
State Tax Commission

Not Responding: Department of Elementary and Secondary Education; Secretary of State

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
February 28, 2001