

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2345-01  
Bill No.: SB 6  
Subject: Education, Elementary and Secondary; Education, Higher; Teachers; Elementary and Secondary Education Dept; Boards, Commissions, Committees, Councils; Taxation and Revenue - Income; Taxation and Revenue - Property  
Type: Original  
Date: September 10, 2003

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>General Revenue</b>	\$54,393,572	\$0	\$0
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$54,393,572</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Gaming Proceeds for Higher Education Fund *</b>	\$0	\$0	\$0
<b>Colleges and Universities *</b>	\$38,313,000	\$51,084,000	\$51,084,000
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>\$38,313,000</b>	<b>\$51,084,000</b>	<b>\$51,084,000</b>

**\* Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 15 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>School Districts*</b>	<b>\$337,206,617</b>	<b>\$323,198,417</b>	<b>\$254,135,062</b>

\* Voter approval would be required before fiscal impact would be realized.

**FISCAL ANALYSIS**

**ASSUMPTIONS**

*Section 137.073*

Officials from the **Department of Revenue - State Tax Commission (TAX)** assume this proposed legislation would reduce the school district operating levy in every school district by \$1.45 per \$100 assessed valuation, with a floor of \$1.00 per \$100 assessed valuation.

**Oversight** assumes projected assessed value and loss of revenue for FY 04, FY 05, and FY 06 as follows:

	<u>Assessed Value</u>	<u>Loss of Revenue</u>
FY 04	\$77,618,642,000	\$1,125,470,309
FY 05	\$82,120,523,000	\$1,190,747,583
FY 06	\$86,883,513,000	\$1,259,810,938

**ASSUMPTIONS** (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** assume this proposal would reduce property tax revenues by school districts and replace that revenue with a statewide income tax surcharge. The proposal would distribute the additional income tax revenue on a per pupil basis rather than distributing it through a system that takes into account other revenues districts may receive. Reduction of school district property tax revenues and creation of a statewide income tax surcharge would not, at this time, appear to have an impact on DESE or local school districts.

#### Critical needs/professional development

This proposal would reduce the amount available to DESE for statewide areas of critical need for learning and development, from 1% to 1/4 % of the amount appropriated for the foundation formula. In FY03 that 1% amount is approximately \$17.6 million. The proposed change would reduce the amount to approximately \$4.4 million for critical needs and professional development. This change would reduce the money available for numerous initiatives including, but not limited to, assistance to teachers and administrators in improving their teaching and curriculum, assistance to school districts declared academically deficient, and assistance to regional professional development centers that provide training opportunities for teachers throughout the state.

While the proposed change would reduce the amount available for DESE to allocate for critical needs and professional development, the change would not reduce the cost to fund the foundation formula or the cost of critical needs and professional development. Based on the FY03 appropriation approximately \$13.2 million in additional state funding would be sent to school districts through the foundation formula rather than being reserved for critical needs and professional development. The districts would then have to consider allocating additional district money to meet those needs.

#### Career Ladder Program

This proposal would eliminate the career ladder program. DESE's FY 04 budget request includes career ladder funding at \$38,069,074. Elimination of this funding would result in a \$38 million positive impact on general revenue.

ASSUMPTIONS (continued)

A+ Schools Program

Books and fees would be eliminated from costs that are reimbursable through the program. Currently, reimbursement for books and fees makes up approximately 38% of the A+ appropriation.

**Oversight** assumes FY 03 budgeted amount for distributions in the A+ program to be \$18,519,600, therefore the elimination of reimbursement for books and fees would exceed \$7 million.

**Oversight** assumes these changes in the allocation of state support would only impact FY04 since the proposal requires state support for education to be distributed based on attendance after the proposal becomes effective.

The provisions of this act would be subject to approval by voters of the state at a special election to be called by the governor for that purpose.

Officials from **Linn State Technical College** assume there would be no fiscal impact to their organization from this proposal.

Officials from the **University of Missouri System, Missouri Western State College, Central Missouri State University, and Truman State University** assume it is not possible to determine the fiscal impact of this proposal on their organizations.

Officials from the **Department of Higher Education** estimate that increasing the gaming admission fee by \$1 would generate approximately \$50 million per fiscal year. This provision would earmark 10% for the College Guarantee fund (approximately \$5M) and 90% for higher education institutions (approximately \$45M) through a fund to be administered by the CBHE. An increase to the College Guarantee program of approximately \$5M would provide this need-based scholarship to an estimated additional 2,240 students. However, it is not clear if this funding would be an increase to higher education funding, or if General Revenue funding would be reduced by the amount of the funding increase. Therefore, the impact of these changes is unknown.

Officials from the **Office of State Treasurer**, in response to a similar proposal in a previous session, stated this proposal would have no fiscal impact on their agency.

ASSUMPTIONS (continued)

Officials from the **Office of Administration - Division of Budget and Planning (COA-BAP)**, in response to a similar proposal in a previous session, stated this proposed legislation should not result in additional costs or savings to the Office of Administration. COA-BAP deferred to other agencies to determine the fiscal impact of the gaming and income tax provisions. COA-BAP did indicate the proposed legislation would impact total state revenue.

Officials from the **Secretary of State's Office (SOS)** assume this bill would make changes and modifications in education, education funding and taxation policies. The Department of Elementary and Secondary Education, the Department of Higher Education, the Missouri Gaming Commission and the Department of Revenue may promulgate rules and regulations to implement this legislation. These rules and regulations will be published in the Missouri Register and the Code of State Regulations.

Based on experience with other divisions, the rules, regulations and forms issued by the Department of Elementary and Secondary Education, the Department of Higher Education, the Missouri Gaming Commission and the Department of Revenue could require as many as 88 pages in the Code of State Regulations and roughly half again as many pages in the Missouri Register as cost statements, fiscal notes and the like are not published in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23 and the cost of a page in the Code of State Regulations is \$27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of the rules filed, amended, rescinded or withdrawn.  $((88 \times \$27) + (132 \times \$23)) = \$5412$

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Section 143.013

Officials from the **University of Missouri Research Center** assume this portion of the proposal would raise individual income tax revenues paid to the state by roughly \$1.5 billion, taking into effect the new federal tax reforms.

ASSUMPTIONS (continued)

Officials from the **Department of Revenue - Division of Taxation and Collection**, assume this legislation would impose an additional two and nine tenths tax on Missouri taxable income over nine thousand dollars in order to fund public schools in Missouri. It also increases the personal exemption by \$3,000 per taxpayer, and allows an additional deduction for taxpayers filing head of household or surviving spouse equal to \$1,500.

Administrative Impact:

The Division of Taxation anticipates that the additional 2 and 9/10% increase of the tax would be calculated through a change in the current tax table. This would impact 2004 tax returns filed in 2005. Taxation would change the tables and forms to reflect this increase in tax. Legislation does not indicate that DOR has to separately deposit or track the additional tax, therefore, the only system changes will be to the tax table, which is a minimal programming impact. If this assumption is incorrect additional review will be needed.

The withholding formula will need to be changed to allow for the increase in the tax rate. Notification will be needed for employers to advise them of the withholding table tax increase. Postage will be needed in the amount \$46,250.

Revenue Impact:

The department was informed that the University of Missouri's Research Center would be calculating the revenue impact of this legislation. Therefore, the department will defer any revenue impact to them.

Section 143.151 and Section 143.161

Officials from the **University of Missouri Research Center**, in response to a similar proposal in a previous session, indicated that Sections 143.151 and 143.161 would result in a reduction of individual income tax revenues. If enacted so that the personal exemption is \$10,000 for single filers, \$15,000 for head of household and \$20,000 for joint filers, the reduction would be between \$400 and \$600 million annually. These changes are incorporated into the revenue estimate for Section 143.013.

ASSUMPTIONS (continued)

Section 313.820 and Section 313.855

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Officials from the **Missouri Gaming Commission**, in response to a similar proposal in a previous session, indicated revenues would be as follows:

FY 2004	\$38,313,000 (Assuming an October 1, 2003 start date)
FY 2005	\$51,084,000
FY 2006	\$51,084,000

Referendum Clause

Officials from **Office of Secretary of State - Elections Divison** assume statewide newspaper publication of constitutional amendments cost approximately \$1,161 per column inch based on estimates provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and state statute = \$3,485 per column inch. The estimated total number of inches for this amendments is 220 inches, which includes title header and certification paragraph. \$3,585 x 220 inches = \$766,700 for advertising costs.

In response to a similar proposal, officials from the **Office of Administration** assumed the election costs for a special election would be approximately \$4 million. **Oversight** has shown these election costs in FY 2004.

**This proposal would result in an increase in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
<b>GENERAL REVENUE</b>			
<u>Income</u> - Income Tax Surcharge (Section 143.013)	\$1,513,946,000	\$1,513,946,000	\$1,513,946,000
<u>Transfer Out</u> - Distributions to School Districts (Section 143.013)	(\$1,513,946,000)	(\$1,513,946,000)	(\$1,513,946,000)
<u>Savings</u> - Reduction in Appropriation Percentage for Professional Development (Section 160.530)	\$13,200,000	\$0	\$0
<u>Savings</u> - Reduction in Appropriation for A+ Program (Section 160.545)	\$7,937,448	\$0	\$0
<u>Savings</u> - Elimination of Career Ladder Program (Sections 168.500 - 168.520)	\$38,069,074	\$0	\$0
<u>Cost</u> - Secretary of State Newspaper Advertisements - Election	(\$766,700)	\$0	\$0
<u>Cost</u> - Office of Administration Special Election	(\$4,000,000)	\$0	\$0
<u>Cost</u> - Dept of Revenue - Taxation and Collection (Section 143.013, 143.141, 143.161) Programming Costs	(\$46,250)	\$0	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$54,393,572</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>



<b>GAMING PROCEEDS FOR HIGHER EDUCATION FUND</b>	FY 2004	FY 2005	FY 2006
<u>Income</u> - Gaming Boat Admissions (Section 313.820)	\$38,313,000	\$51,084,000	\$51,084,000
<u>Transfer Out</u> - Distribution to Colleges and Universities (Section 313.855)	<u>(\$38,313,000)</u>	<u>(\$51,084,000)</u>	<u>(\$51,084,000)</u>
<b>ESTIMATED NET EFFECT ON GAMING PROCEEDS FOR HIGHER EDUCATION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>COLLEGES AND UNIVERSITIES</b>			
<u>Income</u> - Distributions from Gaming Proceeds for Higher Education Fund (Section 313.855)	<u>\$38,313,000</u>	<u>\$51,084,000</u>	<u>\$51,084,000</u>
<b>ESTIMATED NET EFFECT ON COLLEGES AND UNIVERSITIES</b>	<b><u>\$38,313,000</u></b>	<b><u>\$51,084,000</u></b>	<b><u>\$51,084,000</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2004	FY 2005	FY 2006
<b>SCHOOL DISTRICTS</b>			
<u>Income</u> - Transfer from General Revenue - Income Tax Surcharge (Section 143.013)	\$1,513,946,000	\$1,513,946,000	\$1,513,946,000
<u>Loss</u> - Reduction in School District Operating Levy (Section 137.073)	(\$1,125,470,309)	(\$1,190,747,583)	(\$1,259,810,938)
<u>Loss</u> - Reduction in Funding for Professional Development (Section 160.530)	(\$13,200,000)	\$0	\$0
<u>Loss</u> - Elimination of Career Ladder Program (Sections 168.500 - 168.520)	(\$38,069,074)	\$0	\$0
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICTS</b>	<b><u>\$337,206,617</u></b>	<b><u>\$323,198,417</u></b>	<b><u>\$254,135,062</u></b>

FISCAL IMPACT - Small Business

If a small business is owned by an individual that person's income tax would be increased; if the business involves taxable personal property or real estate, those taxes would be reduced.

DESCRIPTION

This proposal would make the following changes to the state's education, education funding, and taxation policies:

DESCRIPTION (continued)

SECTION 137.073

The school district operating levy in every school district would be lowered by \$1.45 per \$100 assessed valuation, however, the levy would not be reduced below the minimum tax rate of \$1.00 per \$100 assessed valuation specified in Section 163.021, RSMo. Every school district's tax rate ceiling would also be reduced an equivalent amount.

SECTION 143.013

For all tax years beginning on or after the first day of January following the effective date of the proposal, a 2.9% income tax surcharge would be imposed on taxable income over \$9,000. This additional revenue would be utilized to fund the public schools.

SECTION 143.151

For all tax years beginning on or after the first day of January following the effective date of the proposal, the personal exemption would be increased from \$2,100 to \$3,000.

SECTION 143.161

For all tax years beginning on or after the first day of January following the effective date of the proposal, the amount which an unmarried head of household may claim as an income tax deduction would be increased from \$1,400 to \$1,500.

SECTION 160.530

Beginning with fiscal year 2004, the one percent of state aid allocated to professional development would be reduced to one-quarter of one percent. The ninety percent of one percent of the formula allocation that the commissioner distributes to address the statewide areas of critical need for learning and development would also be reduced to one-quarter of one percent. Further, several of the state-wide areas of critical need for learning and previously identified in the statute development would be eliminated. School districts would be required to allocate ten percent of state aid for professional development to the Success Leads to Success Grant Program.

DESCRIPTION (continued)

LMD:LR:OD (12/02)

SECTION 160.545

The A+ schools program would be changed to pay only tuition, and students would be required to take the ACT assessment as an added condition to receive an A+ scholarship.

SECTION 163.021

In order to be eligible for state aid, school districts would be required to lengthen the school day and year as articulated in the proposal and adopt a statewide uniform school start date of the last Monday in August. A school district would be required to levy a school district operating levy of not less than \$1.00 per \$100 assessed valuation; however, a district which is required to levy less than \$1.00 per \$100 assessed valuation due to a constitutionally-mandated rate rollback would not be considered in violation of that requirement.

SECTION 163.031

The foundation formula would be replaced with a system that distributes all monies appropriated for the public schools of this state based on average daily attendance, except for transportation, special education, and gifted education. Schools which meet the new requirements in Section 163.021 would receive sixty-five percent of district allowable transportation costs, and seventy-five percent of district approved or allowable cost for special education and gifted education.

SECTION 163.161

State transportation reimbursement would be reduced from 75% to 65% of district allowable costs.

SECTION 163.172

The proposal would increase the minimum annual teacher's salary to \$26,000; would increase the minimum salary to \$32,000 for a teacher with at least five years teaching experience; and would increase the minimum salary to \$40,000 for a teacher with a master's degree and at least fifteen years teaching experience. This proposal would restrict payments from the excellence in education fund to school districts which had an enrollment of no more than three hundred students in the preceding school year.

DESCRIPTION (continued)

SECTION 171.031

School districts would be required to adopt the uniform start date of the Friday immediately following the third Monday in August. The proposal would also increase the required minimum school year term from 1,044 hours to 1,200 hours and the maximum number of hours in a school day from seven hours to eight hours.

SECTION 313.820

Increases the gaming boat boarding fee from two to three dollars and directs the proceeds from the increase to the Gaming Proceeds for Higher Education Fund, which would be created in the proposal.

SECTION 313.855

Moneys deposited in the fund would be used to support the public institutions of higher education in this state and would be distributed on a monthly basis to the schools as outlined in the proposal.

The following sections would be repealed:

SECTION 162.081

Statutory provisions for reorganization or supervision of a school district which is unaccredited or which fails to provide a full school term would be removed.

SECTIONS 163.014; 163.015; 163.022; 163.023; 163.025; 163.028; 163.032; 163.034; 163.035

Several Foundation Formula related sections in Chapter 163, RSMo, would be deleted. Deleted sections would include those dealing with minimum operating levies and hold harmless districts.

SECTIONS 168.500-168.515

The "Missouri Career Development and Teacher Excellence Plan" (career ladder program) would be eliminated.

DESCRIPTION (continued)

SECTION 168.520

The career advancement program for personnel of state schools for the blind, deaf, and severely handicapped, along with salary supplements for participants would be eliminated.

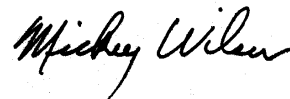
SECTION B

The proposal contains a referendum clause with an election to be held on the first Tuesday in August, 2003, or at a special election called by the governor for that purpose.

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 Revenue  
State Tax Commission  
Central Missouri State University  
Department of Elementary and Secondary Education  
Linn State Technical College  
University of Missouri System  
Office of Secretary of State  
Administrative Rules Division  
Elections Division  
Missouri Gaming Commission  
University of Missouri Research Center  
Office of State Treasurer  
Missouri Western State College  
Missouri Southern State College  
Southwest Missouri State University  
Department of Revenue  
Division of Taxation and Collection  
Office of Administration  
Division of Budget and Planning  
Department of Higher Education



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