

**MISSOURI STATE AUDITOR'S OFFICE**  
**FISCAL NOTE (05-17r)**

**Subject**

Initiative petition from Herman Kriegshauser regarding a proposed constitutional amendment for Article IX, Education, Sections 1 through 14. (Received November 9, 2005)

**Date**

December 8, 2005

**Description**

The initiative petition (version 3) would establish and maintain free public schools for all persons in the state within the ages not in excess of twenty-one years or grades K-14. The proposed amendment would change appropriations to the schools, by the state, from annually to quarterly. It would also increase the percentage of state revenues used for support of schools from twenty-five percent to thirty-three percent.

The proposal repeals the prohibition of state and local funds or resources to aid any religious creed, church, or private or public school controlled by any religious creed, church, or sectarian denomination.

In addition, the proposed amendment would require all funding of K-14 schools through taxation to be the exclusive and sole responsibility of the state legislature. No individual K-12 public school, public school district, special school district, or community college district would be allowed to raise any additional funds from any form of taxation of income, sales, or property.

Funding of all K-14 education would come from no less than twenty-five percent and no more than forty percent of any category of taxation of income, sales, or property. The legislature would annually determine and appropriate an amount to be provided for all K-14 public schools and K-14 non-public school students in the form of scholarship certificates. One hundred percent of the amount of the scholarship certificate would be distributed to public schools on behalf of parents or guardians choosing a public school education. Seventy-five percent of the amount of the scholarship certificate would be distributed through the parents or guardians on behalf of students choosing a non-public school, if such education is provided by a recognized nationally, regionally, or state accredited non-public school accrediting agency or the school has obtained provisional approval pending accreditation to be received within the fourth school year of participation.

No testing requirements of K-14 non-public school students can be required by law, regulation or otherwise.

The legislature would determine and provide additional funding for all students requiring special care due to physical and/or mental disability as a percentage of the basic amount provided all K-14 public or non-public school students.

State income from lottery tickets or regulated gambling would be divided equally among all K-14 public and non-public school students. Also, all K-14 public schools, K-14 non-public schools, grades 13-14 community colleges, or K-14 non-profit educational trusts, would be allowed to obtain additional funding through the providing of ninety percent state income tax credits to businesses and/or individuals who donate funds to such schools, colleges, or trusts.

The amendment is to be voted on in November, 2006.

### **Public comments and other input**

The State Auditor's Office received input from the Department of Elementary and Secondary Education, the Department of Higher Education, the Office of Administration, the Department of Revenue, Metropolitan Community College in Kansas City, St. Louis Community College, and Linn State Technical College.

### **Assumptions**

#### Department of Elementary and Secondary Education

Officials from the Department of Elementary and Secondary Education (DESE) indicated that section 1(a) would mandate gratuitous instruction to all individuals not in excess of 21 years of age or grades K-14. The loss of tuition receipts from college students would constitute a cost of the amendment.

Section 3(b) would increase the minimum amount of state revenues allocated in support of public schools from twenty-five percent to thirty-three percent. The DESE Budget Section indicated that the calculation on the amount of required revenue would have to come from the Office of Administration.

Section 8 contains the primary prohibition of use of public funds to support church-based schools. Although no direct costs would be triggered by this change, it represents a significant change in policy for the state.

Section 10(a) would place school funding at the sole discretion of the state legislature. Public school districts, special school districts, and community colleges would be barred from raising additional funds through taxation. This would remove local control of public school funds. Loss of local tax revenues would constitute a cost of this amendment.

Section 10(c) would create in effect a new voucher system that would distribute scholarship certificates to the public or nonpublic school of a parent or guardian's

choosing. The cost of this section would be subject to appropriations by the General Assembly.

Section 11 would authorize the state legislature to determine funding for children with disabilities in both public and nonpublic schools. The cost of this section would be subject to appropriations by the General Assembly.

Section 12 would divide revenues from lottery tickets and regulated gambling equally among K-14 public and nonpublic school students. There would be additional costs for establishing a new mechanism for distribution of funds to the nonpublic schools.

Section 13 would authorize both public and nonpublic schools to obtain additional funding through the providing of tax credits to businesses or individuals donating to the institutions. The cost would be a function of the enabling legislation that would authorize the amount of the tax credits. More tax credits mean less funds available to distribute to schools.

DESE concluded that the fiscal impact of the proposed constitutional amendment is unknown.

#### Department of Higher Education

Officials from the Department of Higher Education (DHE) indicated the initiative petition would have a significant impact on the department for the coordination of payments to the state's post-secondary institutions and parents or guardians. Due to budget cuts, the DHE has suffered FTE reductions in excess of 50 percent. Given the scope and magnitude of this proposal, a minimum of four FTE would be needed to carry out the duties as outlined.

The proposed change would require the following additional duties at the DHE: develop a distribution mechanism for all scholarship certificates issued to students or their parents or guardians; develop a tracking system for scholarship certificates sent to public post-secondary schools in Missouri; monitor the levels of additional funding for students with physical and/or mental disability needs; review accreditation of non-public schools; monitor tax credits of those businesses and/or individuals who donate funds to K-14 schools, community colleges or non-profit educational trusts.

Four FTE (3 Research Associates and 1 Director) would be assigned to a unit to accomplish all of the duties relating to the distribution and monitoring of funds for over 57,500 Missouri high school graduates potentially entering grades 13 and 14. Many of these duties pertain to both public and private institutions. Therefore, this group would be responsible for distribution of funds to parents or guardians of students entering grade 13 and 14 in a non-public school or to the more than 250 campuses in Missouri where students could receive grade 13 and 14 education.

In addition, the fiscal impact of this potential constitutional change is further unknown since the funding provisions would impact the future actions of the General Assembly

and ultimately the state appropriations for higher education institutions including appropriations for maintenance of those institutions. Community Colleges currently receive revenues from their local taxing districts. This source of income will potentially go away.

Office of Administration

Officials from the Office of Administration (OA) provided the following summary of costs.

Initiative Educational Costs		FY06 Spending/Revenues	
Total Cost K-12	\$7,072,143,671	DESE	\$3,347,419,514
Total Cost Community College	\$409,647,195	Community College	\$125,885,581
Total Cost Early Childhood	\$96,314,400	Gaming and Lottery	\$559,467,145
Total Projected Cost	\$7,578,103,266	Total Revenues	\$4,032,772,240
Increased Educational Cost to State		\$3,545,331,026	
Initiative Additional Costs			
90% business/individual income tax credit for donations to educational trusts or any K-14 school		\$ unknown	

OA officials also indicated that there would be an impact on the Department of Elementary and Secondary Education. Section 10(b) of the initiative petition requires scholarship certificates be provided to all students K-14. This would end direct appropriations to public school districts for free public education.

Section 8, which prohibits public aid for religious or private institutions, is repealed. This may jeopardize all of Missouri's federal funding for education. Currently Missouri receives \$1,000,902,098 in federal funds. Most federal programs receive funds based on student counts. It is assumed student counts in public schools would decrease, resulting in a loss of federal funds.

Section 10(a) prohibits local taxation by school districts. Currently Missouri school districts receive over \$2.9 billion in local revenues. This petition would result in the loss of those revenues to local public schools.

This analysis assumed all State operated schools for the Blind, Deaf and Severely Handicapped would be closed.

This analysis calculated costs for education in grades 13-14 using DESE's current rate of entry in community colleges, 26.8%. It is anticipated this number would increase significantly, though there is not data available for analysis. Any significant increase in this number would result in a substantial increase in state costs.

This analysis assumes a redistribution of Gaming and Lottery revenues. This results in a net impact of zero for the State; however individual programs will be negatively impacted.

- Departments of Health and Senior Services and Social Services would lose \$15 million from the Early Childhood Education Development and Care Fund (ECDEC).
- DESE would lose \$22 million in Lottery and Gaming funds used for various programs, including First Steps and Early Childhood Education Programs.
- Veteran's Commission would lose \$6 million in Gaming funds.
- Missouri National Guard would lose \$4 million in Gaming funds.

It is assumed the Gaming Commission would retain \$19.6 million in gaming revenues to continue regulatory functions of gambling casinos and bingo.

It is assumed Early Childhood Special Education services would continue for children ages 3-5. They would be provided with scholarship certificates in the amount of \$8,836 per child, the rate currently expended for these services.

For FY 2004, Missouri spent 32.4% of total state revenues on free public education. Calculations for FY 2005 have not yet been completed.

This could be a potential Hancock issue. It is unknown where students will chose to attend school. There is the possibility of schools receiving less money, due to loss of local funds, than is generated by the scholarship certificates.

OA officials also indicated that there would be an impact on Community Colleges/Universities. Because Section 1(a) of the initiative petition establishes free public schools for grades K-14 for Missourians twenty-one years and under, community colleges would no longer be able to charge tuition and fees for Missouri students twenty-one years and under. They could still charge tuition and fees for non-Missouri residents and students over twenty-one years old. Instead of tuition and fees, community colleges will receive funding from scholarship certificates for each Missouri student twenty-one years and younger attending their institution. This analysis assumes education for grades 13-14 would be provided at community colleges only.

Because Section 10(b) of the initiative petition reads that the legislature shall appropriate funds to students in the form of scholarship certificates (rather than the current method of direct appropriations to the community colleges), community colleges would no longer receive direct state appropriations of approximately \$133 million annually. Instead of state appropriations, community colleges will receive funding from scholarship certificates for each Missouri student twenty-one years and younger attending their institution.

Because Section 10(a) of the initiative petition prohibits local taxation by community colleges, community colleges would lose approximately \$112 million annually in local tax revenues. The community colleges will instead be funded through State taxation,

distributed to the community colleges through scholarship certificates, for each Missouri student twenty-one years and younger attending their institution.

The four-year higher education institutions and Linn State Technical College would lose approximately \$67 million annually in lottery funding under this proposal as those funds would be redistributed to K-14 education.

Higher education scholarship programs would lose approximately \$8 million annually in lottery and gaming funding under this proposal as those funds would be redistributed to K-14 education.

OA officials also indicated that there would be an impact from the tax credits. At this time there is no data available to accurately estimate the fiscal impact of the proposed tax credit. A number of large and small corporations currently donate funds for education. A number of parochial schools do not charge tuition; rather they collect donations from members. It is assumed these existing donations combined with new donations generated by this petition would result in a substantial loss of tax revenue.

#### Department of Revenue

According to officials from the Department of Revenue (DOR), this legislation would require the legislature to provide funding through taxation (sales, income, and property tax) for all K-14 schools. If passed by a vote of the people, the legislature could potentially increase the amount of sales tax, income tax, and property tax collected in order to provide this funding. This could have an indirect impact on the DOR with the increase from 25% to 33% mandatory education funding. Also, more specific language would be needed regarding the tax credits allowed to business and/or individuals who donate funds to schools. The DOR assumes it would only redeem the credits, not administer the credits. No fiscal impact is anticipated.

#### Metropolitan Community College

Officials from Metropolitan Community College (MCC) indicated they estimate state aid for the 2006-07 school year to be approximately \$30.9 million. Assuming that level of funding will continue, the impact of eliminating their ability to tax would be about \$28.1 million and abolishing their ability to charge fees would result in \$38.3 million in lost fee revenue, or a total loss of approximately \$66.4 million. This would be the worst case scenario since it assumes the state would not make up any of this lost revenue. Currently, the state of Missouri, by statute, can fund up to fifty percent of the MCC operating budget. In 2006-07 school year, the state is projected to fund only 28.6 percent of the MCC operating budget, or about 57.2 percent of what it is allowed by statute. If the state would only replace 57.2 percent of the lost revenue, as it does now with state aid, then the administration at MCC should assume that it would only replace 57.2 percent of the \$66.4 million in lost revenue, or \$38 million, thus reducing funding to MCC by about \$28.4 million. Therefore, a likely fiscal impact on MCC could conceivably be \$28.4 million.

As for the scholarship certificates, there is no way to really measure the fiscal impact empirically. However, since it certainly would have a negative effect on enrollment, MCC feels it is safe to say that its fiscal impact would also be quite negative.

#### St. Louis Community College

According to officials at St. Louis Community College, they will receive approximately \$54,200,000 in its current fiscal year of 2006 from local property taxes. The \$54,200,000 amount, which represents 36% of the College's operating budget, is the largest revenue component of the College. The College has a very serious concern that the state of Missouri would not be able to provide the additional amounts of funding that the College currently receives in local property taxes as well as what it would receive from those taxes in the future.

The College's concern is based upon the fact that the College has experienced withholdings and reductions in state aid in recent years. In addition, the Missouri Department of Higher Education has advised the College this week that it should plan on a 10% to 12% reduction, which could amount to nearly \$5,500,000, in core state aid for FY 2007.

#### Linn State Technical College

Officials from Linn State Technical College indicated that the fiscal impact is unknown, however to manage a voucher system for all K-14 schools could become quite costly for the state to administer. The proposed amendment would provide additional funding through lottery tickets, regulated gambling, and taxation from income, sales, and property. The removal of section 8 would allow additional K-14 schools to receive funding from an already inadequate funding stream. K-14 schools would need to develop a system to monitor and track the scholarship certificates which could result in the need for additional staffing. It also limits the ability of K-14 schools to generate additional dollars through tax collection.

### **Fiscal Note Summary**

Funding for all public & non-public K-14 schools shall be the sole responsibility of the state legislature. The estimated state impact exceeds \$3.5 billion annually. Because public K-14 schools shall no longer assess local taxes, the impact on local government is unknown, as they are subject to funding from the state legislature.