

Department of Planning and Budget 2024 Session Fiscal Impact Statement

1. Bill Number: HB359

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Simonds

3. Committee: Appropriations

4. Title: Public school funding; nonpersonal cost categories; federal fund deduction methodology.

5. Summary: Requires the Department of Education, (i) in calculating nonpersonal costs in the Standards of Quality funding formula, to include the costs associated with work-related travel, leases, rentals, and non-capital facility expenditures; (ii) in calculating the deduction of federal funds in the Standards of Quality funding formula, to examine actual school division spending on support costs as a percentage of actual school division spending on all public education costs, with certain exceptions such as food service; (iii) in calculating costs in Standards of Quality funding formula, to combine the March 31 Average Daily Membership for those school divisions that have partnered as a fiscal agent division and a contractual divisions and (iv) in calculating costs in the Standards of Quality funding formula, to include all employee benefit costs incurred by a majority of school divisions. The bill also requires support services positions, which includes positions in each local school division that the school board deems necessary for the efficient and cost-effective operation and maintenance of its public schools, to be funded based on a calculation of prevailing costs and prohibits such positions from being subject to any method of funding calculation that caps the number of funded support services positions based on a ratio of such positions to students enrolled in the local school division, however that such methodology shall not apply to division superintendents, school board members, pupil transportation positions, or certain specialized student support positions.

6. Budget Amendment Necessary: Yes, Item 125.

7. Fiscal Impact Estimates: Preliminary, see item 8.

8. Fiscal Implications: This bill makes several changes to the calculation of Standards of Quality (SOQ) funding for local school divisions calculated by the Department of Education (DOE) and funded through Direct Aid to Public Education. Many of these calculations are completed once biennially during the rebenchmarking process. If passed in the 2024 session, this bill would have an effective date of July 1, 2024, and requirements related to rebenchmarking calculations would be implemented in 2025 for the 2026-2028 biennium

unless otherwise directed. At this time any costs to implement rebenchmarking calculations for the 2026-2028 biennium and future years are indeterminate.

The bill requires DOE to include the costs associated with work-related travel, leases, rentals, and non-capital facility expenditures in its calculations of SOQ nonpersonal support costs. DOE currently collects data from school divisions in the Annual School Report financial data collection related to facilities and to travel. In order to include these expenditures in the calculation, DOE would need to reprogram and test the SOQ model to include these categories. At this time, it is not possible for DOE to estimate what the cost of including these categories might be in the 2024-2026 biennium due to the amount of time needed to reprogram the SOQ model. Additionally, DOE would need to work with the Department of Taxation and the Department of Planning and Budget to find the most appropriate measure to capture inflationary costs of these added nonpersonal cost items, as is captured for other nonpersonal cost items.

The bill requires DOE to examine actual school division spending on support costs as a percentage of actual school division spending on all public education costs when calculating the deduction of federal funds, with certain exceptions. The existing federal fund deduct calculation already removes non-recognized costs from the base, such as food services and capital expenditures. DOE would require additional direction on the methodology to update the federal fund deduct in order to update the calculations for the 2024-2026 biennium or during future rebenchmarkings.

This bill requires DOE to combine the March 31st Average Daily Membership (ADM) for school divisions that have partnered as a fiscal agent division and a contractual division. Additional language in the bill or in budget would likely be necessary to require DOE to also combine the fall membership count for such divisions, as fall membership projections are used as the primary driver for funded SOQ instructional positions. DOE would also require direction on which division the ADM shall be attributed to for the purpose of determining the composite index of local ability-to-pay to use for calculation of funding. DOE is not able to estimate the impact of combining ADM for the 2024-2026 biennium without additional direction.

This bill requires DOE to include all employee benefit costs incurred by a majority of divisions in its calculations of SOQ costs. Currently only the calculation of the funded health care premium rate is included in calculation. Health care costs are already updated by DOE during the rebenchmarking process, based on prevailing costs and participation rates in school divisions. DOE does not currently collect data from local school divisions specifically for unused leave payouts. The earliest that that this could be added to the Annual School Report data collection, and that school divisions could begin reporting it, is FY25, which means the earliest data could be included in calculations of Basic Aid funding during rebenchmarking is the 2028-2030 biennium. Any actual impact is indeterminate.

This bill removes the cap on support service positions and funds these positions based on a calculation of prevailing costs. The introduced budget, HB/SB 30, funds these positions at a

ratio of 24 positions per 1,000 students in ADM. DOE estimates the additional state cost to remove this cap would be \$200.3 million general fund in FY25 and \$202.0 million general fund in FY26. Any cost in future years is indeterminate and would depend on the Direct Aid to Public Education budget as rebenchmarked for future biennia.

It is not clear from the language in the bill if the support positions listed, division superintendent, school board members, pupil transportation positions, and specialized student support positions, are intended to be funded based on a calculation of prevailing costs or based on a ratio of such positions to students enrolled.

Budget language amendments would be needed in Item 125 to direct DOE to complete the calculations as described in this bill for the current biennium or for future biennia, and to remove any conflicts that are currently in budget language.

Local school divisions would be required to meet the required local effort for any additional state funds received based on local composite index. The actual fiscal impact to local school divisions is indeterminate at this time.

9. Specific Agency or Political Subdivisions Affected: Department of Education, local school divisions

10. Technical Amendment Necessary: No

11. Other Comments: None