

HF3595 - 0 - Special Education Aid Unreimbursed Costs Modified

Chief Author: **Samantha Sencer-Mura**
 Committee: **Education Finance**
 Date Completed: **3/18/2024 11:03:16 AM**
 Agency: **Education Department**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	22,671	17,384	
Total	-	-	-	22,671	17,384	
Biennial Total						40,055

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	-	22,671	17,384
Total		-	-	-	22,671	17,384
Biennial Total					-	40,055
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	-	22,671	17,384
Total		-	-	-	22,671	17,384
Biennial Total					-	40,055
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total		-	-	-	-	-
Biennial Total					-	-

Bill Description

This bill changes the percentage of tuition billing a serving district and charter charges back to the resident district for open enrolled students. The last change to this percentage happened in 2021, which reduced it to 80 percent. This bill further reduces the percentage to 50 percent for all open enrolled students. In addition, it holds charter schools harmless by covering the lost billing with state aid.

Assumptions

All open enrolled special education student’s unreimbursed costs will be affected. This will lead to a reduction in tuition billing for open enrolled students in charter schools and those students served by districts other than their resident district.

This bill includes a cost to fund the lost revenue for all charter schools by lowering the billback percentage from 80 percent to 50 percent. Currently, the state is covering the 10 percent loss. Charters are currently funded at 90 percent of their unreimbursed costs each year. This bill would maintain that same level of funding but transfer more of the cost directly to the state.

There is no financial assistance for districts. Therefore, about one-third of the school districts will actually see lower state aid due to a loss in tuition revenue for serving nonresident students. These districts generally see more students enrolling within the district than leaving to attend other districts and/or charters.

The cost to the state will be due to the state covering the loss tuition revenue for the charters at roughly \$30 million annually.

There will be a cost savings to the state in the form of reduced cross-subsidy reduction aid due to less tuition billing occurring. This savings will not be felt until the second year because the cross-subsidy funding is based on prior year results. Overall, this bill will cost more than it saves due to fully covering the charter’s loss billing while the cross-subsidy reduction aid only covers 44 percent of the tuition amount.

More districts will shift away from the hold-harmless funding due to lower tuition bills. This could fluctuate each year as it would depend on each specific district and the amount that they were billed for their student enrolling outside their residents.

Homeless transportation aid will also decrease due to less districts being funded off the hold-harmless.

Expenditure and/or Revenue Formula

The table below shows the net affect of the bill changes. A previously mentioned there are higher costs in the first year due to the cross subsidy reduction aid being based on prior year data.

HF3595	FY26	FY27
State Aid	25,861,842	16,189,664
CY Approp	22,670,491	14,191,859
PY Approp	-	3,191,351
Total Approp	22,670,491	17,383,211

Long-Term Fiscal Considerations

Increasing the open enrollment cap within tuition billing for districts leads to a reduction in the creation of special education setting 3 and 4 programs. This previously occurred at the start of the new state special education funding formula with the growth limit in conjunction with the 2015 change that required open enrolled records only tuition bill at 90 percent. The reason for this is because districts are concerned that when they create their own setting 3 and 4 programs, neighboring district students will open enroll, thus taking spots from their own students, while also financially obligating the serving district to cover more of the open enrolled student cost. Therefore, this tuition cap will force these programs to be moved and/or created within cooperatives and intermediates. This directly leads to special education students being separated from their general education peers. There is no way to determine how much it will increase statewide costs in later years, since we aren't able to track changes in program spending at that level.

Local Fiscal Impact

Based on the February 2024 forecast and changing the tuition rates to reflect this bill language, 121 districts would receive less aid in SFY 2026 and 126 districts would receive less aid in SFY 2027. The average loss in revenue per district in SFY 2026 would be \$54,240, with the highest losses being in excess of \$700,000 annually.

References/Sources

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