

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0118-01
Bill No.: SB 81
Subject: Education, Elementary and Secondary
Type: Original
Date: January 24, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government*	Unknown	Unknown	Unknown

*** The distribution of the available money, when the appropriation is insufficient to provide for a proration factor of 1.00, will result in an unknown impact to individual districts.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** indicated there should be no added cost to their agency as a result of this proposal. BAP deferred to the Department of Elementary and Secondary Education for an estimate of possible increased costs to the state as a result of this proposal.

Officials from the **Department of Elementary and Secondary Education (DESE)** provided the following assumptions: SB 81 revises the Line 1 entitlement of the foundation formula by returning to one proration factor rather than the 2 proration factors adopted in SB781 (1998).

Prior to the passage of SB 781 (1998), the Line 1 entitlement calculation was: Eligible Pupils x Equalized Operating Levy for School Purposes x the Guaranteed Tax Base (GTB) x the Proration Factor. When the appropriation exceeded the amount needed to have a proration factor of 1.00 or was below the amount needed to have a proration factor of 1.00, only one proration factor was applied to the total entitlement for all school districts regardless of the districts' tax rates.

SB 781 created two entitlement calculations, summed to determine the total entitlement. Line 1A uses the factors stated in the above paragraph for the portion of the tax rate not to exceed

ASSUMPTION (continued)

\$2.75.

Line 1B uses the factors stated above for the portion of the tax rate greater than \$2.75. The statutory language concerning the proration of Lines 1A and 1B differ slightly. Line 1A addresses the idea of adequacy and protects at the highest possible proration the first \$2.75 (minimum tax rate) of all districts' tax levy used in the formula. The Line 1B calculation addresses the idea of equal opportunity for access to increased revenue, impacting the portion of the tax rate above the \$2.75 minimum.

In the event the appropriation is below the amount needed to have a proration factor of 1.00, Line 1B is prorated first. Line 1A is not prorated until the 1B proration drops to less than .95. If the Line 1B proration factor continues to drop below .95, Line 1A is prorated downward maintaining a .05 spread between Lines 1A and 1B. Consequently, SB 781 reduces, but does not eliminate, the original incentive in the Outstanding Schools Act for districts to increase their tax rate above the minimum of \$2.75 since the portion greater than \$2.75 is prorated first and at a lower rate.

SB 81 removes the language creating Lines 1A and 1B, returning the formula to the pre-SB 781 language concerning the entitlement calculation to one proration factor. According to DESE, this change in SB 81 does not increase or decrease the amount needed to fund the formula at a proration of 1.00. The change does effect the distribution of the available money when the appropriation is insufficient to provide for a proration factor of 1.00. If the provision of SB 81 was in place in the current fiscal year, 2004-05, the estimated breakeven tax rate is approximately \$3.70. Districts with a lower tax rate would likely see a decrease in state dollars while those with tax rates greater than \$3.70 would likely see an increase in state dollars.

According to officials from the **Office of Attorney General (AGO)**, because this section of the law is the subject of active litigation, any changes to it could affect the course of that litigation and AGO's allocation of resources to it. AGO assumes any costs resulting from this proposal could be absorbed with existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
Local School Districts	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS*	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

*** The distribution of the available money, when the appropriation is insufficient to provide for a proration factor of 1.00, will result in an unknown impact to individual districts.**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal removes the line 1(b) formula calculation (which currently determines an entitlement amount for any portion of a levy above the minimum-required levy) and alters the line 1(a) calculation accordingly, so that a district's entitlement would be the product of multiplying the number of eligible pupils by the district's operating levy for school purposes multiplied by the guaranteed tax base per eligible pupil times the proration factor.

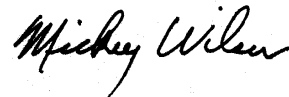
Under the provisions of this proposal, should the formula be underfunded, all of the districts' entitlements will be calculated utilizing the same proration factor, regardless of the levy a district imposes. The current formula, if underfunded, applies a lower proration factor when calculating the portion of a district's entitlement which is above \$2.75. Therefore, this legislation will lessen the financial impact (for districts with operating levies above \$2.75) should the formula possess a proration factor of less than 1.0.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

L.R. No. 0118-01
Bill No. SB 81
Page 5 of 5
January 24, 2005

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of Attorney General
Office of Administration
Division of Budget and Planning



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January 24, 2005