

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0179-02  
Bill No.: HB 55  
Subject: Education, Elementary and Secondary: Elementary and Secondary Education  
Dept  
Type: Original  
Date: February 21, 2005

---

**FISCAL SUMMARY**

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

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

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 4 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</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 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* 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; however, it will not affect the amount of total state aid disbursed.

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Office of Attorney General** and the **Office of Administration - Division of Budget and Planning** and **Division of Accounting** stated there would be no fiscal impact to their agencies as a result of this proposal.

Officials from the **Department of Elementary and Secondary Education (DESE)** made the following assumptions regarding this proposal:

HB 55 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.

ASSUMPTION (continued)

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 \$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.

This proposal removes the language creating Lines 1A and 1B, returning the formula to the pre-SB781 language concerning the entitlement calculation to one proration factor. This change in HB 55 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 HB 55 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.

This proposal also clarifies the proration calculation for Lines 14A & B. This clarification follows the state's current methodology for prorating Line 14. No change is anticipated in the distribution of Line 14 dollars as a result of the clarification.

<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
<b>SCHOOL DISTRICTS*</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</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; however, it will not affect the amount of total state aid disbursed.

FISCAL IMPACT - Small Business

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

DESCRIPTION

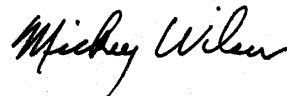
This proposal combines lines 1a and 1b of the school funding formula, which determine the entitlement of a school district to state school aid. Currently, the lines have separate proration factors that permit a higher proration factor to be used on line 1a, the portion of the entitlement that covers the minimum levy, if the formula is not fully funded. No change is made to the line 14a and b proration factors for at-risk student funding.

The proposed legislation has an effective date of July 1, 2006.

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



Mickey Wilson, CPA  
Director  
February 21, 2005