



## Fiscal Estimate Narratives

DPI 11/21/01

LRB Number <b>01-3627/3</b>	Introduction Number <b>AB-637</b>	Estimate Type <b>Original</b>
<b>Subject</b>		
School construction board		

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, school districts may incur debt if: 1) local electors approve a referendum. These debt service expenditures are exempt from a district's revenue limit; or 2) a school board, under certain circumstances, passes a resolution for that purpose. These debt service expenditures are included under a school district's revenue limit.

Currently, the state is committed to fund two-thirds of partial school revenues (state school aid and local school property taxes less certain exceptions). Currently, debt service expenditures are included in the state's definition of partial school revenues. This bill would exclude debt service on debt incurred by school districts to finance construction projects other than the construction of academic classrooms from the state's definition of partial school revenues.

Under current law, a school district's shared cost is determined by subtracting certain deductible receipts from the gross cost of a district's general fund and its debt service fund. This bill would exclude debt service on debt incurred by school districts to finance construction projects other than the construction of academic classrooms from a district's shared costs.

This estimate attempts to determine the fiscal effects of this bill if it were enacted in the 2000-01 school year.

In order to estimate the amount of debt service expended to finance construction projects other than academic classrooms, successful 2000-01 debt service referenda were analyzed to determine the percentage of non-academic classroom construction projects. It is estimated that roughly 49% of the total value of these referenda funded purposes other than funding new classroom construction projects. Athletic facility repairs, classroom renovation projects, land purchases, and information technology upgrades are examples of referenda funded projects that are not considered academic classrooms construction for the purposes of this estimate. Furthermore, it is also assumed that non-referenda debt service is generally used to fund repairs and renovations because the amount a school district may levy into this fund is constrained by its revenue limit.

It is assumed that successful 2000-01 debt service referenda were a representative subset of that year's total debt service expenditures in terms of classroom construction and, therefore, 49% of the total \$215.3 million in 2000-01 referenda debt service (\$105.5 million) would be non-academic classroom construction. Thus under this bill, \$105.5 million in debt service expenditures would be excluded from the definition of partial school revenues. As stated previously, it is assumed that all 2000-01 non-referenda debt service expenditures (\$23.0 million) would be excluded from partial school revenues. In 2000-01, it is estimated that school districts statewide spent a total of roughly \$128.5 million (\$105.5 million + \$23.0 million) in debt service to fund non-classroom construction and, thus, partial school revenues would be reduced by this amount.

#### State fiscal effect:

The reduction of \$128.5 million from partial school revenues would require the state to reduce general school aids by roughly \$85.7 million ( $\frac{2}{3} \times \$128.5$  million) in order to meet the state's two-thirds funding commitment.

#### Local fiscal effects:

Because this provision does not affect school districts' revenue limits, the reduction of \$85.7 million in general school aids would allow school districts statewide to increase their local property tax levies by this amount.

The \$85.7 million reduction of general school aids would significantly decrease the amount of state aid received by the vast majority of school districts. Furthermore, the exclusion of debt service on debt incurred by school districts to finance construction projects other than the construction of academic classrooms from a district's shared costs would have significant redistributive effects among school districts. Shared cost is an important factor in the state's equalization aid formula. This bill would reduce any school district with debt service

expenditures from that district's shared costs. The effects of that reduction would affect different types of districts in different manners. Generally, this provision would redistribute general school aids from lower-value, lower-cost districts to higher-value, higher cost districts.

### **Long-Range Fiscal Implications**