

## SF2394 - 0 - "Referen Equilization Rev, Aid and Levy"

Chief Author: **Charles Wiger**  
 Committee: **E-12 Division**  
 Date Completed: **04/19/2016**  
 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	
	FY2015	FY2016	FY2017	FY2018	FY2019
Dollars in Thousands					
General Fund	-	-	-	27,612	29,777
Total	-	-	-	27,612	29,777
Biennial Total			-		57,389

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2015	FY2016	FY2017	FY2018	FY2019
General Fund	-	-	-	-	-
Total	-	-	-	-	-

**Executive Budget Officer's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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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.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
Dollars in Thousands		<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
General Fund		-	-	-	27,612	29,777
<b>Total</b>		-	-	-	<b>27,612</b>	<b>29,777</b>
<b>Biennial Total</b>				-		<b>57,389</b>
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund		-	-	-	27,612	29,777
<b>Total</b>		-	-	-	<b>27,612</b>	<b>29,777</b>
<b>Biennial Total</b>				-		<b>57,389</b>
<b>2 - Revenues, Transfers In*</b>						
General Fund		-	-	-	-	-
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-

### Bill Description

This bill modifies the calculation of referendum equalization revenue, aid and levy; amending Section 126C.17, subdivisions 5 and 6.

Proposed legislation raises the second tier referendum revenue equalization cap and increases the state aid equalization rate of the second tier referendum levy.

Section 1, subd.5 increases a district's second tier referendum equalization allowance to the lesser of the district's referendum allowance under subdivision 1 or \$1,000 (an increase from \$760), minus the district's first tier referendum equalization allowance.

Section 2, Subd.6 increases the equalizing factor for second tier referendum equalization revenue from \$510,000 to \$650,000 per resident pupil unit.

### Assumptions

The February 2016 forecast model was used to calculate the FY 2018 and FY 2019 increases in referendum equalization aid and reductions to the local referendum levy. This legislation does not include revising the equalization factors for other levies that are also equalized at second tier rates. These include: Local Optional Revenue (LOR), Equity Revenue and Transition Revenue.

- Not changing these levies to match the referendum levy second tier equalization rate will mean the equalization factors will be at two different rates.

- As a result, school districts with second tier referendum allowances between \$724 and \$1,000 that are subject to the LOR subtraction may have an incentive to underlevy LOR to maximize the higher rate of aid equalization under the proposed second tier equalization formula.

- However, shifting revenue from LOR to referendum would reduce total revenue for these districts because equity revenue is reduced as referendum revenue increases, but LOR is not factored into the equity revenue formula.

- While 43 districts would receive a net increase in state aid if they underlevy LOR to qualify for more second tier

referendum aid, they would lose \$0.31 of revenue for each \$1.00 gained in aid.

· The department assumes that districts will maximize revenue over maximizing aid. Therefore, it was assumed that these districts will not shift revenue from LOR to referendum.

· If all 43 districts chose to maximize aid by underlevying LOR, the appropriation cost of this bill would increase by approximately \$5.5 million annually to \$32.9 million in FY18 and \$35.3 million in FY19.

### **Expenditure and/or Revenue Formula**

**\$ in 000s**

	2018	2019	18-19 Biennium
Referendum Levy	-30,680	-29,676	-60,356
Referendum Equalization Aid	30,680	29,676	60,356
NET	0	0	0
<u>Appropriation Changes:</u>			
90% Current	27,612	26,709	54,321
10% Final		3,068	3,068
<b>Appropriation Change</b>	<b>27,612</b>	<b>29,777</b>	<b>57,389</b>

### **Long-Term Fiscal Considerations**

This is a permanent change

### **Local Fiscal Impact**

Local referendum levy is reduced and shifted to state aid for school districts with referendum allowances above the current law 2nd tier.

**\$ in 000s**

	2018	2019	18-19 Biennium
Referendum Levy	-30,680	-29,676	-60,356
Referendum Equalization Aid	30,680	29,676	60,356
NET	0	0	0

## **References/Sources**

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