

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: SB 171

50th Legislature, 1st Session, 2011

Tracking Number: .184124.2

Short Title: School Fund Reversions & Transfers

Sponsor(s): Senator Mary Jane M. García and Others

Analyst: Peter B. van Moorsel

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FOR THE LEGISLATIVE EDUCATION STUDY COMMITTEE

Bill Summary:

SB 171 amends the *Public School Finance Act* in the *Public School Code* to:

- make the Public School Fund non-reverting;
- provide that a refund be made to the State Support Reserve Fund (rather than the General Fund) in the event a school district or charter school has received a larger State Equalization Guarantee (SEG) distribution than to which it was entitled; and
- require that any balance above \$10.0 million in the State Support Reserve Fund be transferred to the Public School Fund.

Fiscal Impact:

SB 171 does not contain an appropriation.

Fiscal Issues:

- Requiring school districts and charter schools to refund excess SEG allotments to the State Support Reserve Fund (rather than to the General Fund) could contribute to a larger balance in that fund.
- A larger balance in the State Support Reserve Fund would increase that fund's capacity for maintaining the Unit Value (see Background) in the event of a reduction to the SEG, which occur due to an unexpected decrease in credits or an unanticipated increase in program units.
- The Public Education Department reports in its analysis that in FY 10 the Public School Fund reverted \$13.0 million to the General Fund. If SB 171 is enacted, such reversions would not be made, and the General Fund appropriation to the Public School Fund for the following fiscal year could take credit for the balance in the Public School Fund.

Substantive Issues:

Among its provisions, current law states that the Legislature's intent was to ensure that the State Support Reserve Fund fund had a credit balance of at least \$10.0 million at the beginning of each fiscal year.

- The current balance in the fund is \$1.0 million, which is the last appropriation to the fund by the 2007 Legislature.
- From FY 00 to FY 07, there was no balance in fund as a result of a provision in the *General Appropriation Act of 1999* that transferred the balance in the fund to the General Fund operating reserve on June 30, 1999. According to the Legislative Finance Committee *1999 Post Session Fiscal Review*, the balance in the State Support Reserve Fund at the end of FY 99 was \$5.2 million.

Background:

State Support Reserve Fund

- In 1967, the State Support Reserve Fund was created in law to ensure that the maximum distribution for basic state support established in law would not be reduced. In 1974, when the current public school funding formula was established in law, this provision was amended to require that the fund be used only to supplement the appropriations for the State Equalization Guarantee (SEG) so that the Unit Value is not reduced.

Unit Value

Under the public school funding formula:

- Program Cost is the amount of money assumed under the formula to be necessary to provide educational services in public schools state wide. The SEG is determined to be the program cost less credits (see below).
- The unit value is a dollar amount calculated by dividing the program cost by the total number of program units statewide:

$$\text{Unit Value} = \frac{\text{Program Cost}}{\text{Total Statewide Units}}$$

Thus, a decrease in credits, or an increase in units could cause a reduction in the unit value.

Credits

- The state takes credit for 75 percent of the local .5-mill levies and 75 percent of federal forest reserve funds and most Impact Aid (formally PL 874) funds, with the exception of Impact Aid funds for special education or for students living on Indian lands, which remain in the local districts. School districts retain 25 percent for operational or other purposes.

- If a district has excess cash balance as determined by a statutory formula, the state also takes credit up to a specific percentage of the estimated limit.
- Districts that participate in the Utility Conservation Program have an additional amount subtracted from the program cost; that amount is held in a separate fund to be used solely for that program.
- In addition, participating districts also have subtracted from program cost 90 percent of their certified portion of the debt service payments on bonds authorized pursuant to the *Energy Efficiency and Renewable Energy Bonding Act*.

Related Bills:

HB 3 *Education Appropriation Act*