

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 199** SLS 13RS 258
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 10, 2013	8:18 AM	Author: WHITE
Dept./Agy.: Education		Analyst: Mary Kathryn Drago
Subject: Southeast Community School System		

SCHOOLS RE INCREASE GF EX See Note Page 1 of 2

Creates and provides for the Southeast Baton Rouge Community School Board and school system in East Baton Rouge Parish. (See Act)

The proposed legislation creates the Southeast Baton Rouge Community School Board and school system in East Baton Rouge (EBR) Parish. The legislation provides for an interim school board to serve without compensation. The legislation addresses several funding issues that will be handled between the East Baton Rouge Parish School System and the newly created Southeast Baton Rouge Community School Board. The proposed legislation will take effect and become operative if when a proposed constitutional amendment to Article VIII, Section 13(D) is adopted at a statewide election allowing the system to be created. The Southeast Baton Rouge Community School Board will begin providing for the education of students on July 1st immediately following the effective date of this Act.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	INCREASE	INCREASE	INCREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0					\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0	\$0				\$0

EXPENDITURE EXPLANATION

The initial date of operation of the Southeast Baton Rouge School system is not known, but the earliest it may occur is FY 15 -16. Using the FY 12-13 Minimum Foundation Program (MFP) simulation to prepare a proposed estimate, state general fund expenditures through the MFP would increase by approximately \$970,000 to include the Southeast Baton Rouge School System in the formula. The East Baton Rouge Parish School System's state MFP allocation is calculated to decrease by \$19.26 million and the newly created Southeast Baton Rouge Community School District's estimated state allocation is \$20.23 million. The impact to the MFP is an estimate using the latest data available, however, the actual impact may be different depending on the MFP resolution in effect when the new system begins. The effects on future fiscal years cannot be determined at this time, but will likely result in an increase of an indeterminable amount. It is anticipated that local school district expenditures will increase in any year prior to the beginning of the Southeast Baton Rouge School System for startup costs.

Local Impact

East Baton Rouge Parish: The East Baton Rouge Parish School System (EBR) will be required to transfer the land, buildings and facilities, instructional materials, equipment and required number of buses to the Southeast School System. According to the MFP simulation used for these estimates, the state funding available to the East Baton Rouge Parish School System through the MFP will be approximately \$149.5 million (or \$19.3 million less than the current year). While the total state funding allocated to the East Baton Rouge Parish School System will be less, the MFP simulation calculates East Baton Rouge to have \$255 more per pupil from the state allocation. The MFP formula now recognizes East Baton Rouge Parish to be less wealthy when taking into account the demographics of the students remaining and available revenue remaining, thus causing the state's share of the cost to increase. East Baton Rouge Parish is left with a higher state per pupil allocation. Approximately \$52-56 million from local revenue could be transferred to the Southeast School System from EBR. The East Baton Rouge Parish school district is halfway through a 10 year "pay as you go" tax plan that would generate \$100 million for construction (51%), compensation (41%), and discipline (8%) over that time period. EBR has indicated the loss of revenue attributed to the creation of the Southeast School district will significantly impair their ability to complete their plans associated with this tax revenue. **continued on page 2**

REVENUE EXPLANATION

The current revenues generated by this community will not be considered new revenues because it is essentially transferred from one system to another system. A constitutional amendment allowing the creation of a new school system, SB 73, would allow the school system to raise local revenues, thus there may be an increase in local revenues in fiscal years subsequent to the creation of the school system as a result of additional taxes being implemented to sustain the education in either school system and to provide for the administration (such as hiring a superintendent, etc).

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input checked="" type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S}	
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

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CONTINUED EXPLANATION from page one:

Expenditure Explanation continued:

Southeast Baton Rouge School System: Approximately \$20.23 million state general fund dollars will be available from the state through the MFP. According to estimates provided by the East Baton Rouge Parish School System and the Department of Education, the new system could have between \$52 million - \$56 million in local revenues available to operate the school system (transferred from EBR). The local revenue associated with the new school system will be transferred as well as any federal funding associated with the schools and students; this is not new funding. The amount of federal dollars that will be transferred has not yet been determined. The Southeast Baton Rouge School System would be able to expend all of these revenues on the education of their students. The Fiscal Office is not able to determine if the Southeast School System's estimated net revenue after satisfying all of the requirements in the proposed legislation is sufficient to cover the costs of educating the projected student enrollment. It is possible that the school system may have to increase revenues through additional taxes to meet expenditure needs in the future.

The estimated student enrollment count for the Southeast Baton Rouge School System used for this example is approximately 6,800 students. The Central Community School System was created by Act 202 of the 2006 Regular Legislative Session. The Central School System incurred costs of approximately \$300,000 during their organizational period in 2007. The Southeast School System could have similar or slightly higher startup costs when initially starting because the Southeast School System would be a larger system than Central. The interim school board members will serve without compensation. This fiscal note assumes that local resources will be obtained and used for expenditures for the start up costs for Southeast Baton Rouge.

Impact to other districts: As a result of changes in the local revenues of the East Baton Rouge Parish School System and the new Southeast School System recognized in the MFP formula, other school systems could realize between 0% up to a 0.06% reduction in their MFP allocation, or a total of \$682,933 statewide. Beginning the July after the creation of the school system and continuing through an additional 4 fiscal years, the Board of Elementary and Secondary Education (BESE) is required to identify the districts that are negatively impacted by the creation of the Southeast district and determine the amount of the negative impact and subtract that total from Southeast to be redistributed to the other school systems. Using this figure, \$682,933 would be deducted from the Southeast MFP allocation and redistributed to all of the affected systems by the amount each was impacted, thereby negating any negative impact.

Legacy costs: East Baton Rouge Parish School System is required to annually itemize all post-employment benefits to be paid for the benefit of every individual hired by the Southeast Baton Rouge Community School System as a full-time employee. The itemized list will be submitted to Southeast for reimbursement until all benefits have been paid. A trust will be established, and within 12 months of beginning operation the Southeast Baton Rouge Community School System will deposit an initial sum, and each succeeding year, calculated equal to the amount received by East Baton Rouge Parish from BESE on behalf of East Baton Rouge Parish schools placed in the Recovery School District. If a figure is not calculated in a timely manner a committee will determine the amount. It is not clear what this actual per pupil amount may be. A report titled *School District Restructuring and Reform* prepared by James Richardson and Roy Heidelberg in August of 2012 indicates a legacy cost per pupil of \$866 in East Baton Rouge Parish as of 2011-12. For illustrative purposes, if Southeast was required to pay \$866 per pupil into the trust, the total cost could be \$5.9 million (\$866 * 6,800 students). A per pupil amount will be deposited each year from Southeast School System resources until it is determined by an actuary that there are sufficient funds to pay the proportionate share of the legacy costs. It is not clear what the initial payments will be to the EBR school system, thus, it is not clear what the actual impact to either school system will be.

Construction debt payments: Beginning July 1st of the year following the actual operation of the school system, the Southeast Baton Rouge Community School System will reimburse the East Baton Rouge Parish Educational Facilities Improvement District an amount equal to the percentage of the debt service paid in the preceding fiscal year attributable to the construction completed within the boundaries of the Southeast Baton Rouge Community School System. According to the East Baton Rouge Parish School System, the system was awarded \$43.1 million in Qualified School Construction Bonds, of which approximately \$9.3 million (21.6% of the total) is currently being spent on schools in the Southeast School System (figure excludes interest). The Legislative Fiscal Office was not able to obtain the annual debt payments on these bonds at the time this fiscal note was prepared. However, the Southeast School System may be required to pay approximately 22% of the annual debt payments.

The total legacy benefits and debt service payment amounts have not yet been determined. The payments will be a transfer between the local school systems, and will have no impact to the state.

There may be issues related to capacity of both school systems. According to the report titled *School District Restructuring and Reform*, the proposed Southeast School System may have too little capacity to serve the high school population and the East Baton Rouge School System may have too little capacity to serve the middle school population. Schools in East Baton Rouge Parish that have been moved to the jurisdiction of the Recovery School District have led to some of the capacity issues in the parish. It is possible that some schools may be reconfigured to address the capacity issues. However, any additional capacity issues resulting from this legislation may necessitate an increase in expenditures related to providing additional classroom space.

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