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## FISCAL IMPACT REPORT

SPONSOR: Watchman DATE TYPED: 02/24/01 HB 656  
 SHORT TITLE: Public School Capital Outlay Projects SB \_\_\_\_\_  
 ANALYST: Kehoe

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
\$ 100,000.0				Non-Recurring	General Fund
\$ 2,300.0				Non-Recurring	General Fund
\$ 20.0				Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB134, SB167, HJR3, and SJR5

Duplicates SB449

### SOURCES OF INFORMATION

Public School Capital Outlay Task Force Report  
 LFC Files

### SUMMARY

#### Synopsis of Bill

Sections 1 and 3 make permanent the earmarking of supplemental severance tax bonds (STBs) for public school capital outlay projects pursuant to the Public School Capital Outlay Act. These sections are identical to those in HB 134 implementing the recommendations of the Public School Capital Outlay Task force. These sections phase out the use of supplemental STBs for higher education capital outlay projects.

Section 2 is standard language providing for certification of the need for bonds by the Public School Capital Outlay Council (PSCOC) and the sale of bonds by the State Board of Finance.

Sections 4 and 8 are identical to sections of HB134 and phase out or repeal authority for limited issuance of supplemental STBs for public schools of up to \$600 million.

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Sections 5 and 6 continue the Public School Capital Outlay Task Force, including the nine members of the Public School Capital Outlay Council (with representatives from the State Department of Education (SDE), Governor's Office, Department of Finance & Administration and Legislative staff offices), five legislators and two representatives of impact aid districts. The Task Force shall evaluate the adequacy of revenue and school capital outlay needs.

Section 7 appropriates \$2.3 million to SDE for assessment of school capital outlay needs. The MGT study completed in 1999 estimated funding needs at nearly \$1.5 billion, but reports from individual school districts suggest costs may be higher. The PSCOC in December awarded the contract to 3D/International. The scope of work requires the vendor to conduct an inventory and an assessment of all school facilities in the state, including a cost estimate.

Section 7 also appropriates \$66,330.0 to the PSCOC and \$33,670.0 to the three plaintiff school districts in the "Zuni" lawsuit. These amounts fund critical requests to the PSCOC for the 2001 funding cycle.

### Significant Issues

When the Zuni lawsuit was initiated, PSCOC funding was approximately \$15 million per year. As indicated on the attached table, supplemental STB funding this year could reach \$160 million plus \$22 million of federal funds. Funding is estimated at \$111 million in FY02 and at least \$90 million for the next several years thereafter. In recent years the state has made a large commitment to improve public school facilities. The \$100 million general fund appropriation in SB 449, including \$33.7 million to three Zuni plaintiff school districts, continues the state's efforts to promote equity.

The estimated costs to implement recommendations of the Public School Capital Outlay Task Force are unknown. However, experience from Arizona suggests that they will drift upward. In Arizona, the cost of addressing 100% state funded deficiencies rose from \$200 million to \$1.2 billion. HB656 provides an alternative to the greater commitment of state resources to school construction recommended by the Task Force (diversion of \$100 million of senior sponge STBs in FY02 and FY03 and an increase in General Obligation Bond capacity from 1% to 3%).

HB656 does not address the recommendation of the Task Force and the State Board of Education to increase the SB9 match from \$35/unit/mill. An increase to \$50/unit/mill costs \$14 million in FY02.

HB656 does not change the current statute establishing eligibility for PSCOC funding. At present, districts must be bonded to 75% capacity, but if the PSCOC certifies long-term availability of at least \$60 million per year, all districts would be eligible based on a sliding scale formula linked to property tax wealth and property tax effort. Presumably, the Task Force created by SB449 would study and recommend changes to the formula.

### **FISCAL IMPLICATIONS**

The general fund appropriations in HB656 total \$102.3 million and are non-recurring.

Compared to HB 134 and the recommendations of the Task Force, the continued short-term approach in HB656 avoids an increase in GO Bond capacity and property taxes and avoids diversion of \$183 million of senior severance tax bonds for school capital outlay.

### **ADMINISTRATIVE IMPLICATIONS**

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The SDE reports that the \$2.3 million appropriation includes funding for additional FTEs as well as contractual services in order to evaluate future school capital outlay costs and assist the PSCOC in allocating appropriations.

### RELATIONSHIP

HB656 focuses on continued funding increases, school funding and cost assessments compared to the long-term resolution to school funding needs and equity in HB 134. Two attachment tables compare the funding and provisions in SB449 and HB134.

### OTHER SUBSTANTIVE ISSUES

A possible amendment to HB656 consistent with the continued short-term approach of this bill is to include an increase of the SB9 match to \$50/unit/mill at a cost to the general fund of \$14 million.

To increase representation of legislative financial expertise on the Task Force, a possible amendment is to substitute the chairs of HAFC and SFC or their designees for the chair of the LFC.

### POSSIBLE QUESTIONS

1. How much funding is needed?
2. Does the Legislature agree with the policy position that correcting health and safety deficiencies is solely the responsibility of the state? In Arizona, the deficiency cost ballooned from \$200 million to \$1,200 million.
3. Does the proposal have strong incentives for local funding of public school capital outlay? How can they be strengthened?
4. The Arizona model has consistently experienced costs greater than projected. How has the Task Force accounted for this issue in its recommendation?
5. Is the Legislature willing to give up some senior severance tax bond sponge capacity to this effort? In a declining revenue environment, sponge capacity would become less certain. How would the difference be made up?
6. The Task Force recommendations assume the elimination of the Lottery distribution to public school capital outlay. Does the Legislature agree with this philosophy?
7. Does the Legislature agree with the intent that the supplemental severance tax program not be dedicated to health and safety deficiencies?
8. What will be the criteria for allocating the deficiency funding? Who will make the decisions?
9. If the standards for the new public school capital outlay program are developed and implemented by the Public School Capital Outlay Task Force, is the Legislature willing to provide this degree of public policy making authority to that body?
10. Is the Legislature willing to take on additional state debt to fund public school capital outlay with this new general obligation bond proposal? If adopted, is the Legislature willing for this new bond program to be a residual, after all other funding sources are calculated?

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11. Has the Task Force presented its recommendations to Judge Rich? What was his response?

LMK/ar/njw  
Attachment