BILL # HB 2028 **TITLE:** school district redistricting commission

SPONSOR: Gray L. **STATUS:** House Engrossed

REQUESTED BY: House **PREPARED BY:** Steve Schimpp

FISCAL ANALYSIS

Description

The bill would establish a 13-member School District Redistricting Commission to design a proposal to unify school districts in Arizona based on certain criteria.

Estimated Impact

The bill would have both direct and secondary fiscal impacts. Direct fiscal impacts would occur in any circumstance regardless of the number of unifications. Secondary impacts would depend on the number of unifications.

Direct impacts of the bill would include the following costs: 1) staff support for the Commission, 2) Commission member travel expenses, 3) legal services for seeking "preapproval" of the bill from the U.S. Department of Justice, 4) new regional services for rural or isolated districts, 5) a new Superintendent's Institute to provide continuing education to school administrators, 6) school district overhead for conducting a cost/benefit analysis on outsourcing some school district functions, and 7) costs of putting proposed unification measures on the ballot. The Arizona Department of Education (ADE) would have primary responsibility for staffing the Commission and does not have a cost estimate for this function. The bill prohibits the Legislature from appropriating monies for use by the Commission.

Secondary impacts of the bill would depend on the number of unifications, which cannot be predicted in advance. Secondary impacts would include 1) costs of seeking U.S. Department of Justice preapproval of unifications proposed by the Commission, 2) savings from increased K-12 "local share" tax collections from unorganized territories, 3) savings from elimination of "small school weight" funding, 4) savings from elimination of funding for the "small school budget exemption," 5) savings from reductions in "unification assistance" funding, and 6) savings due to efficiency gains from eliminating very small districts and from establishing regional support services for rural and isolated districts.

Analysis

Commission Overhead

The bill would require ADE to provide staff for the Commission. It also would require ADE to reimburse Commission members for travel and related expenses pursuant to Title 38, Chapter 4, Article 2 of Arizona Revised Statutes. ADE would have to fund both items out of existing resources, as the bill does not provide separate funding for them. As noted above, ADE does not have a cost estimate for the bill.

Legal Costs

Section 5 of the federal Voter Protection Act of 1965 requires all election law changes in Arizona, including redistricting plans, to receive "preapproval" from the U.S. Department of Justice. Since the bill is intended to foster the unification of school districts, it is possible it could have an influence on the number of school districts in the state and on their geographic boundaries. This, in turn, might be interpreted as having a potential impact on minority representation on school boards. If so, the bill itself and any unification proposed under it could require U.S. Department of Justice preapproval.

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Analysis (Cont'd)

Staff in the Office of the Arizona Attorney General informally indicate that they believe that the bill would require preapproval from the U.S. Department of Justice and that each proposed unification under the bill would require preapproval as well. We cannot predict the mix of districts that would be proposed for unification under the bill and therefore cannot predict the legal costs, if any, that would be incurred under it.

New Support Services

The bill would require county school superintendents to establish support services for administration, instructional and non-instructional support for rural and isolated schools and school districts. A.R.S. § 15-365 currently permits county school districts to establish such programs, but does not require them. These programs usually are self-funded through user fees.

The bill also would require the Superintendent of Public Instruction to establish an institute to provide continuing education to school administrators in the areas of staff development, classroom management and technology-assisted instruction. The bill does not provide new monies for this function, so ADE would have to fund it out of existing resources. A somewhat similar program, the Arizona Principals' Academy, currently receives $25,200 annually from the State General Fund.

Cost/Benefit Analysis and Election Costs

HB 2028 would require each school district to conduct an annual cost/benefit analysis for outsourcing non-instructional functions. This could increase local costs if school districts currently are not conducting such an analysis, but potentially could reduce costs if outsourcing was found to be cheaper.

HB 2028 would require proposed unification measures to be place on the ballot at the next general election and would require county school superintendents to prepare and submit to all registered voters a publicity pamphlet describing proposed unification measures. The bill does not provide funding for new election-related expenses that would occur under it.

Eliminate Small School Weight

A.R.S. § 15-943(2a) currently provides higher per pupil funding to school districts with fewer than 600 Average Daily Membership pupils in Grades K-8 or high school. We estimate that this currently increases state costs for Basic State Aid for school districts by about $20 million. Any potential cost savings for this issue probably would not appear until at least FY 2007 because the Commission's final report would not be submitted to the Governor until halfway through FY 2006 and voter approval would be required afterward in order to implement proposed unifications.

Eliminate Small School Budget Exemption

The bill would require the Commission's final report to recommend elimination of the "small school budget exemption" that currently is authorized by A.R.S. § 15-949. That law allows school districts with fewer than 125 pupils in Grades K-8 or 100 pupils in Grades 9-12 to be exempted from the "General Budget Limit" in A.R.S. § 15-947(C). This permits them to fund items "outside of the Revenue Control Limit" without voter approval. Currently small school districts budget about $14 million outside of the Revenue Control Limit because of the small school budget exemption. We roughly estimate that the state pays about $2 million of that cost through the Homeowners' Rebate and that local taxpayers pay the remaining $12 million. We therefore estimate that local property taxes would decrease by about $12 million and Homeowners' Rebate costs would decrease by $2 million under the bill. The savings from eliminating the small school budget exemption would not appear until at least FY 2007, again due to timing issues under the bill.

Unorganized Territories

The final report from the school district redistricting Commission would be required to develop a plan for placing unorganized territories within the boundaries of a school district. Unorganized territories are areas of the state, such as Sun City, that are not located within a school district. Pursuant to A.R.S. § 15-991.01, property owners in unorganized territories currently pay 50% of the K-12 Qualifying Tax Rate (QTR), whereas property owners within school districts pay 100% of the QTR.

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Analysis (Cont'd)

QTR revenues therefore would increase if property in unorganized territories became part of a school district and had to pay 100% of the QTR. We estimate that QTR revenues would increase by about $12 million if all unorganized territories became part of a school district under the bill and that this would reduce Basic State Aid costs by $(12) million. This savings would not occur until at least FY 2007 due to timing issues in the bill.

Unification Assistance

A.R.S. § 15-912.01 permits a newly-unified school district to increase its Revenue Control Limit by 10% for the first year of unification, 7% for the second and 4% for the third. This has the effect of increasing state funding on a temporary basis to school districts that unify. The bill would disallow unification assistance for any unification recommended by the Commission. This would save the state money for any unification recommended by the Commission that would occur in the future apart from the bill. We cannot predict whether any school districts would unify apart from the bill in the next few years. Currently no school district is expected to receive unification assistance in FY 2005.

Efficiency Gains

It is possible that the bill would result in efficiency gains from eliminating very small school districts. The bill does not require "recapture" of any funds freed up from potential efficiency gains, however, so state and local funding to school districts would not be affected by them. Any potential savings instead would free up resources within existing school district budgets so they could be used for other purposes.

Local Government Impact

As describe above, the bill potentially would have a variety of local government impacts. It potentially will encourage the unification of small districts into larger ones. It would require new regional support services to be provided to rural or isolated school districts. It would require each school district to conduct an annual cost/benefit analysis for outsourcing non-instructional functions. It potentially would reduce the number of local school districts qualifying for small school weight funding pursuant to A.R.S. § 15-943(2a), small school budget exemption funding pursuant to A.R.S. § 15-949, and unification assistance funding pursuant to A.R.S. § 15-912.01. It potentially would require unorganized territories to join a school district, which would increase "local share" revenues to school districts, and it potentially would result in efficiency gains that would free up resources within existing school district budgets.

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