

BILL # SCR 1005

TITLE: trust land proceeds and income

SPONSOR: Bowers

STATUS: As Amended by Senate COW

REQUESTED BY: Senate

PREPARED BY: Tom Mikesell

FISCAL YEAR

	2001	2002	2003
EXPENDITURES			
General Fund	\$0	\$54,782,000	\$56,043,000
REVENUES			
Classroom Site Fund	\$0	\$54,782,000	\$56,043,000

FISCAL ANALYSIS

Description

The resolution as amended proposes a ballot referendum that if accepted by the voters would change constitutional provisions regarding the management of state trust land revenues. If passed, similar changes to the State Enabling Act would be necessary for the constitutional changes to become effective. The resolution provides that expendable revenues currently deposited into the Permanent State School Fund shall be used to pay for classroom site enhancements instead of K-12 education operating expenses.

Estimated Impact

The proposed constitutional changes will result in a General Fund cost of \$54,782,000 in FY 2002 and \$56,043,000 in FY 2003, since it will shift state trust expendable revenues currently budgeted for Basic State Aid to instead fund classroom site enhancements beginning in FY 2002. The resolution directs these monies to be used for classroom site enhancements in the year that they are earned, therefore revenues to the Classroom Site Fund are estimated to increase by \$54,782,000 in FY 2002 and \$56,043,000 in FY 2003.

Assumptions

Key assumptions in determining the impact of this resolution are that the voters pass the referendum and that necessary changes to the State Enabling Act are made to allow the proposed constitutional changes to become effective. Also, it is assumed that "income from the Permanent State School Fund" as referenced in the resolution means expendable investment income from the Permanent State School Fund. Under this assumption, the resolution stipulates that expendable interest income entrusted to K-12 education shall be used for classroom site enhancements. The State Treasurer estimates that in FY 2002 and FY 2003 Permanent State School Fund interest income will be \$54,782,000 and \$56,043,000, respectively.

Currently these expendable revenues are used to offset a portion of the General Fund appropriations for Basic State Aid for education. Shifting these monies to fund classroom site enhancements would therefore require a greater contribution from the General Fund to fund Basic State Aid in FY 2002 and FY 2003. The shift would require \$54,782,000 from the General Fund in FY 2002 and \$56,043,000 from the General Fund in FY 2003 to replace a portion of the Permanent State School Fund monies budgeted for Basic State Aid under the JLBC recommendation.

(Continued)

Assumptions (continued)

This cost would continue beyond FY 2003 as there would be a need to replace these monies in the future. Further, the cost would likely increase as annual Permanent State School Fund interest income increases.

The maximum amount that would be required from the General Fund in the future is estimated to be \$74,898,300. This is due to a requirement in Laws 2000 5th Special Session Chapter 1 that any earnings to the Permanent State School Fund above the FY 2001 level shall be deposited into the Classroom Site Fund. Earnings to the Permanent State School Fund include investment income and income from leasing state trust lands. Since the Permanent State School Fund earnings are estimated to be \$74,898,300 in FY 2001 under the JLBC recommendation (for both interest and lease income), once the portion from interest income reaches this level, then all Permanent State School Fund earnings will be diverted from use for Basic State Aid. When this occurs in the future, an estimated \$74,898,300 will be required from the General Fund to replace these monies in the Basic State Aid formula.

Though the resolution does not specify where monies dedicated for classroom site enhancements are to be deposited, it is assumed that the Classroom Site Fund would be the recipient. Under this assumption, Classroom Site Fund revenues will increase by \$54,782,000 in FY 2002 and \$56,043,000 in FY 2003 due to the shift.

Local Government Impact

None.

Amendments

A Senate Natural Resources, Agriculture, and Environment amendment deleted a provision that the Legislature provide for use of 10% of the monies received from trust land sales plus all other expendable revenues through an appropriation. It also deleted language that required expendable revenues generated for the benefit of K-12 education to be used for deficiencies corrections and building renewal, and instead directed these monies to classroom site enhancements beginning in FY 2002. The original provision could have been interpreted to mean that monies from the Permanent Schools Fund used to pay a portion of Basic State Aid would instead be used to fund the School Facilities Board Deficiency Corrections and Building Renewal formulas. Were this the case, then any increase in General Fund requirements for Basic State Aid caused by the shift would be offset dollar for dollar by reduced General Fund needs for deficiency correction and building renewal. Since the amendment replaces this provision with one that diverts the Permanent State School Fund expendable revenues from Basic State Aid to a purpose without a similar General Fund offset, then the General Fund cost due to the amendment is equivalent to the General Fund cost of the resolution as amended.

A Senate Committee of the Whole amendment removed a provision that 10% of the revenues from the sale of state trust lands be made available for expenditure in the year they are received. Under current law, these monies are deposited into the Permanent Fund to generate interest earnings that could be spent by trust beneficiaries. This provision would have lead to increased revenues to Other Appropriated and Non-Appropriated Funds of approximately \$6,000,000 in FY 2002 and \$6,736,200 in FY 2003 based on the State Land Department's estimates of trust land sales revenues. The provision would have also lead to decreased interest earnings in future years, since diverting 10% of potential deposits to the interest-earning permanent fund would lead to slower future growth in the fund.