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FISCAL IMPACT STATEMENT

LS 6563

BILL NUMBER: HB 1192

NOTE PREPARED: Jan 1, 2012

BILL AMENDED:

SUBJECT: Rainy Day Fund Loans to School Corporations.

FIRST AUTHOR: Rep. Cherry

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes a Rainy Day Fund Loan to school corporations meeting certain criteria. It provides that a school corporation's loan may not exceed the lesser of \$5,000,000 or the result of multiplying the school corporation's ADM by \$1,000.

The bill provides that loans may not be approved after December 31, 2012. It provides that the total amount of all loans approved after December 31, 2011, may not exceed the sum of the loans provided for the 2012-2013 school year. The bill also provides for the interception of revenues otherwise payable to the school corporation if the school corporation fails to pay an obligation associated with the loan.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Summary:* The bill could reduce the principal and interest earnings of the Rainy Day Fund. The bill would permit a loan of up to \$5 M per eligible school corporation at a maximum of 1% interest for up to 72 months. The maximum amount of loans for two eligible school corporations could be about \$8.5 M.

Background: To qualify for the loan, a school corporation has to meet the following criteria:

1. Submit a plan to increase revenue and reduce their expenditures, including the sale of unused property.
2. Show that it is able to repay the loan without distress.
3. The ratio of the school's December 2010 debt divided by their CY 2011 ADM is one of the 5 highest in the state.

4. The ratio of the school's December 2010 debt divided by their CY 2011 assessed valuation is one of the 5 highest in the state.
5. The school corporation's homestead AV for CY 2011 was at least 60% of their AV for the school corporation.

If the school corporation fails to repay the required amount of the loan in a calendar year, the State Treasurer would first pay the unpaid obligation from state distributions the school might receive from the county for county adjusted gross income tax distributions, county option income tax distributions, and county economic development income tax distributions. If there were still unpaid obligations, then it would be paid from other undistributed funds the school might receive from the state, such as tuition support.

The bill limits the availability of these loans to CY 2012. Two schools would be eligible to borrow from the Rainy Day Fund: Mount Vernon Community School Corporation and Franklin Township Community School Corporation. Mount Vernon Community School Corporation could borrow up to about \$3.5 M, and Franklin Township Community School Corporation could borrow up to \$5 M. The maximum amount of loans that would be requested from the Rainy Day Fund could be about \$8.5M.

The bill also provides that the State Board of Finance may not approve any loans for schools who had delayed property tax distributions for 2007 and 2008 after December 31, 2011.

As of June 30, 2011, the Rainy Day Fund had a balance of \$57.2 M, and there were 13 outstanding loans totaling about \$14.8 M for about 10 units of government. Projected payments for FY 2012 are \$3.2 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: See *Explanation of State Expenditures*.

State Agencies Affected:

Local Agencies Affected: Mount Vernon Community School Corporation; Franklin Township Community School Corporation.

Information Sources: Department of Education databases; State Budget Agency FY 2010-2011 *Close-Out Statement*, <http://www.in.gov/sba/2583.htm>.

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