Determination of Impact of Excess Spending Threshold

Summary of Proposal: The administration proposes to gradually lower the excess spending threshold from 121% of the baseline excess spending threshold to 110% between FY20 and FY25. Simultaneously, the percentage of allowed "aggregated exclusions" would be lowered from 100% to 50%.

Assumption: It is assumed that districts would either lower their spending to avoid the new threshold, or, if they are over, the additional tax penalty they pay would cover their own excess spending. This approach is consistent with how tax rates and yields are estimated for the December 1st tax rate letter and for all tax rate estimation done by JFO during the session.

Analysis: To determine the savings/avoided costs of these changes two sample years were examined: FY18 (a year of typical spending growth) and FY19 (a year of below average spending growth). To find the savings: take the districts spending and exclusions from the fiscal year and project them forward (no inflator). Take the excess spending threshold and grow it forward (no inflator). For each year, compute each district's new per pupil spending with the reduced aggregated exclusions and calculate the difference between that and the new excess spending threshold. Sum these by year then average the results from FY18 and FY19, producing the following table:

Estimated Impact of Reducing Excess Spending Threshold Percentage by 2% Per Year and Reducing Aggregated Exclusions by 10% Per Year: FY20-FY24

Year	Excess Spending Threshold	Aggregated Exclusions	Estimated Savings	Districts Impacted
FY20	119% of Prior Year Average PPS	90%	$ 3,000,000	17
FY21	117% of Prior year Average PPS	80%	$ 5,000,000	25
FY22	115% of Prior Year Average PPS	70%	$ 8,000,000	32
FY23	113% of Prior year Average PPS	60%	$ 13,000,000	48
FY24	111% of Prior Year Average PPS	50%	$ 19,000,000	58

Note: FY25 with EST at 110% and exclusions at 50% was not analyzed because it was out of the five year forecast window.

Distribution: These savings estimates and analysis approach were sent to JFO on May 11th and discussed at our meeting at JFO on May 10th. JFO indicated that their estimates were similar at the time, but no consensus estimates were worked on.

Use of Savings Estimate: The savings figures went into the "Reduce excess spending threshold" line in the Reform Initiatives presentation:

Reform Initiatives

Updated 5/23/2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	TOTAL
Increase student/staff ratio		32.0	42.0	51.0	59.0	65.0	249.0
Transitions to statewide healthcare bargaining		6.0	12.0	14.0	14.0	16.0	62.0
Transition to new SpEd payment method		2.0	8.0	17.0	25.0	34.0	86.0
Reduce excess spending threshold gradually over 5 years(beginning in FY20)		3.0	5.0	8.0	13.0	19.0	48.0