

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2013-14		FY 2014-15	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	(\$32,600,256)		(\$38,268,972)	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	(\$32,600,256)		(\$38,268,972)	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 407 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA). The fiscal estimate for FY2013-14 is based upon a comparison of the aid that would have been distributed in FY2013-14 pursuant to current law and the aid that will be allocated per LB 407. The fiscal impact for FY2014-15 and beyond is estimated and may change pursuant to school spending and valuation changes.

CHANGES TO NEEDS IN THE TEEOSA FORMULA: The bill changes various portions of the computation of school district needs in the state aid formula. The changes which will have a fiscal impact are as follows:

Base Limitation/Cost Growth Factor: The base limitation rate or allowable growth rate in the aid formula is decreased by 1% from 2.5% to 1.5% for FY2013-14. The change in the rate decreases the cost growth factor in the formula which is used to inflate school district expenditures for purposes of calculating aid. Currently, the cost growth factor is 3% for FY14 and 5% for FY15. The change in the allowable growth rate for FY14 decreases the cost growth factor by 1% each year. So, the cost growth factor is set at 2% for FY14 and 4% for FY15.

A decrease in the cost growth factor reduces the amount of state aid that is provided as basic funding. The reduction in basic funding pursuant to the decrease in the cost growth factor is projected to be \$18.3 million in FY14 and \$22.6 million in FY15.

General Fund Operating Expenditures: The bill redefines general fund operating expenditures for purposes of calculating school aid. Beginning in FY2013-14, general fund operating expenditures will include tuition paid and transportation fees paid to other districts. The inclusion of these expenditures as general fund operating expenditures increases state aid by an estimated \$10.8 million in FY14 and \$15.6 million in FY15.

Instructional Time Allowance: The instructional time allowance is eliminated beginning in FY2013-14. Generally, allowances attribute expenditures for a specific purpose to school districts incurring the expenditures which reduces the amount of basic funding available in the formula. Eliminating the allowance for instructional time increases basic funding which results in a small change in the amount of state aid distributed. The elimination of the allowance increases state aid by an estimated \$2.8 million in FY14 and \$1.6 million in FY15.

Teacher Education Allowance: LB 407 also eliminates the teacher education allowance beginning in FY2013-14. As previously mentioned, the allowance attributes allowable expenditures for teacher education to school districts eligible for the allowance. This reduces the amount of basic funding available in the formula. Eliminating the teacher education allowance increases basic funding which results in an increase in estimated state aid of \$6.8 million in FY14 and \$6.3 million in FY15.

Summer School Allowance: The bill changes the calculation of the summer school allowance beginning in FY2014-15. The amount of the allowance will be the lesser of the current calculation or the amount of summer school expenditures that are paid for with noncategorical funds generated by state or local taxes that are not included in other allowances. The change in the calculation of the summer school allowance eliminates duplicate allowance amounts for summer school which reduces the amount of state aid distributed in FY15 by an estimated \$5.4 million.

Averaging Adjustment: The averaging adjustment in the formula is eliminated beginning in FY2013-14. The averaging adjustment increases need for districts whose basic funding per student is less than an averaging adjustment threshold. The elimination of the averaging adjustment will have no fiscal impact in FY2013-14 because no district qualifies for the adjustment pursuant to current law.

Local Choice Adjustment: The local choice adjustment in the formula is also eliminated beginning in FY2013-14. The local choice adjustment applies to districts that are not sparse or very sparse that have less than 390 students. Under current law, a district will experience a decrease in aid in the amount of 50% of the difference between the district's basic funding per student and basic funding per formula student of the district that is the closest to having 390 students. This amount is then multiplied by the district's formula students to determine the decrease in aid. The elimination of the adjustment results in a \$1.9 million increase in aid in FY14 and a \$2.9 million increase in FY15.

CHANGES TO RESOURCES IN THE TEEOSA FORMULA:

Local Effort Rate: The local effort rate in the formula is currently set at \$1.00 for FY14 and FY15. LB 407 increases the local effort rate to \$1.03 in each fiscal year. An increase in the local effort rate reduces the amount of state aid provided to school districts because the formula assumes a district has increased resources. The estimated decrease in state aid is \$36.6 million in FY14 and \$36.8 million in FY15.

CHANGES TO BUDGET LIMITATIONS:

LB 407 provides an exclusion from the budget limitation for school districts for the first year in which early childhood membership is included in formula students for the computation of state aid. The exclusion is the amount of the early childhood grant received by a school district in the prior fiscal year, increased by the allowable growth rate. The exclusion allows school districts to spend more than what would have been spent in the absence of the exclusion. However, the fiscal impact is projected to be minimal in terms of increased state aid because the size of the early childhood grant exclusion is estimated to be less than \$3 million in FY14 and FY15.

SUMMARY:

LB 407 decreases the amount of state aid distributed by an estimated \$32.6 million in FY14 and \$38.3 million in FY15. Changes in the formula which result in a net decrease in state aid are shown below:

	FY 2013-14	FY 2014-15
Current Law – Est. State Aid Total	947,413,999	1,005,553,739
Reduce Cost Growth Factor	-18,291,658	-22,564,280
Redefine General Fund Operating Expend.	10,793,301	15,601,960
Eliminate Instructional Time Allowance	2,800,235	1,628,019
Eliminate Teacher Education Allowance	6,755,561	6,298,146
Revise Summer School Allowance	0	-5,379,751
Eliminate Averaging Adjustment	0	0
Eliminate Local Choice Adjustment	1,908,762	2,939,904
Increase Local Effort Rate	<u>-36,566,457</u>	<u>-36,792,970</u>
Total Estimated State Aid	914,813,743	967,284,767
Net Fiscal Impact of LB 407	-32,600,256	-38,268,972

