

Revised on 5/1/13 to reflect amendments adopted through 4/25/13.

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	(\$41,811,800)		(\$36,210,300)	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	(\$41,811,800)		(\$36,210,300)	

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 \$18.4 million in FY14 and \$22.1 million in FY15.

Instructional Time Allowance: The instructional time allowance is changed 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. The bill provides for a district to be eligible for the instructional time allowance if the school is in session for more than an average of 175 days in the most recently completed data year. The allowance is based upon a weighted average of the days in session in excess of 175 for all of the schools in a district times the formula students in the district.

The allowance is computed by taking \$20 million times the ratio of the allowance student days for a district divided the statewide allowance student days. Fifty percent of the instructional time allowance is paid as instructional time aid which insures that nonequalized districts receive aid if they qualify for the allowance. The change in the calculation of the allowance increases state aid by an estimated \$4.3 million in FY14 and \$6.7 million in FY15.

Teacher Education Allowance: LB 407 also changes 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. The allowance for each district equals \$30 million times the ratio of teacher education points calculated for the district divided by the aggregate teacher education points calculated for all districts. Fifty percent of the allowance is paid as teacher education aid which enables nonequalized districts to receive teacher education aid. Changing the teacher education allowance results in an increase in estimated state aid of \$7.2 million in FY14 and \$7.3 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 \$5.6 million.

Averaging Adjustment: The averaging adjustment in the formula is changed beginning in FY2014-15. The averaging adjustment increases need for districts whose basic funding per student is less than an averaging adjustment threshold. The averaging adjustment threshold is changed by the bill. The new threshold will equal the aggregate basic funding for all districts with 900 or more formula students divided by the aggregate formula students for all districts with 900 or more formula students for the school fiscal year for which aid is being calculated. The change in the averaging adjustment threshold increases state aid by an estimated \$11.6 million in FY15.

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 \$2.1 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 rates 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.

Formula Resources: The bill provides that the amount of teacher education aid and instructional time aid received by a district will be included as a formula resource for purposes of calculating state aid. This offsets the increase in needs for equalized school districts in the formula.

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.

The bill also increases the budget authority for a school district in FY2013-14 by up to 2% if such increase is approved by a 75% majority of the school board of the district. It is unknown how many school districts will opt to increase spending in FY14 and by what amount. School districts with no unused budget authority, which are up against the spending lid and are not at the levy limitation, may increase spending by up to 2%. An increase in spending by districts results in an increase in general fund operating expenditures. This increases state aid, two years after the spending increase occurs. It is assumed the increase will not be significant.

The bill continues the budget exclusion for voluntary termination agreements, if districts can demonstrate to the State Board of Education that the agreement results in a net savings in salary and benefit costs to the district over a five year period beginning on the first day of the 2013-14 school year. It is assumed the continuation of the exclusion will have a minimal impact on state aid.

SUMMARY:

LB 407 decreases the amount of state aid distributed by an estimated \$41.8 million in FY14 and \$36.2 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	\$948,439,846	\$976,396,652
Reduce Cost Growth Factor	-18,435,822	-22,129,112
Adjustments to Previous Allowances	-369,192	-294,392
Revise Instructional Time Allowance	4,305,735	6,744,537
Revise Teacher Education Allowance	7,176,001	7,343,963
Revise Summer School Allowance	0	-5,617,034
Revise Averaging Adjustment	0	11,626,445
Eliminate Local Choice Adjustment	2,092,878	2,938,108
Increase Local Effort Rate	<u>-36,581,400</u>	<u>-36,822,815</u>
Total Estimated State Aid	906,628,046*	940,186,352
Net Fiscal Impact of LB 407	-41,811,800	-36,210,300

*Actual aid will be \$906,581,331 due to prior year corrections.

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2013

407
LB⁽¹⁾ AM FISCAL NOTE
1102

State Agency OR Political Subdivision Name: ⁽²⁾ NDE/School Finance & Organization Services

Prepared by: ⁽³⁾ Wilson/Inbody Date Prepared: ⁽⁴⁾ April 29, 2013 Phone: ⁽⁵⁾ 1-3323

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2013-2014</u>		<u>FY 2014-2015</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>(40,785,593)</u>	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>(40,785,593)</u>	_____	_____	_____

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate: This bill will reduce the basic allowable growth rate from 2.5% to 1.5% which reduces the state aid calculation along with the budget authority calculation. This bill changes how the instructional time allowance, teacher education allowance, and system averaging adjustment are calculated and eliminates the local choice adjustment. Additionally, the local effort rate would be increased to \$1.03 from \$1.00 for 2013/14 and 2014/15. The bill would also limit the summer school allowance to the lesser of the current calculation or the amount actually spent on summer school not included in other allowances. This bill will reduce FY 2014-15 as well but the amount cannot be determined at this time.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2013-2014 EXPENDITURES</u>	<u>2014-2015 EXPENDITURES</u>
	<u>13-14</u>	<u>14-15</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	<u>(40,785,593)</u>	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	<u>(40,785,593)</u>	_____