

Revised on 4/7/16 to reflect amendments adopted through 4/6/16.

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			\$13,458,373	
CASH FUNDS			See Below	
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			\$13,458,373	

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

LB 1067 pertains to the learning community, which includes eleven school districts in Douglas and Sarpy counties. The bill repeals the common levy and special building fund levy authorized for school districts in the learning community. The calculation of state aid to schools (TEEOSA) on a collective basis for school districts in the learning community is eliminated. The TEEOSA formula is modified to include community achievement plan aid and learning community transition aid. The calculation of net option funding and allocated income taxes in the formula is changed as well as other changes noted below.

Repeal of Common Levy: The bill repeals the common \$.95 levy for school districts which are members of a learning community effective July 1, 2017. The levy generates about \$492.5 million of property taxes in 2015. The common levy is currently allocated among member districts proportionally based upon the difference of the district’s formula need less the sum of state aid and other actual receipts. The repeal allows each district to levy an individual levy and receive the amount of property taxes collected per the valuation of the district. Some districts in the learning community will have decreased property tax receipts and others will have increased receipts pursuant to the repeal.

Repeal of Special Building Fund Levy: LB 1067 also repeals the authorization for a special building funds levy for the learning community on July 1, 2017. The levy is a maximum of \$.02 and would generate about \$10.4 million based upon 2015 valuations. Taxes received from the levy are distributed proportionately to member school districts based on formula students. The learning community schools did not utilize the levy in 2015.

Change in Calculation of State Aid (TEEOSA):

Repeal of Shared Aid in the Learning Community: Currently, state aid for the eleven school districts in Sarpy/Douglas counties in the learning community is calculated collectively. The combined formula needs of all the districts in the learning community are compared to the combined formula resources of all districts in the learning community to determine the amount of equalization aid for the school districts in the learning community. Each school district receives a proportional share of equalization aid based upon its share of total formula needs. Beginning in FY2017-18, the repeal of the pooling concept for state aid for the learning community will increase state aid to schools by about \$4.9 million.

Community Achievement Plan Aid: LB 1067 adds community achievement plan aid in the TEEOSA formula for districts which are members of the learning community beginning in FY2017-18. The aid is equal to .4643% of the statewide average general fund operating expenditures per formula student taken times the total formula students for schools in the learning community. The estimated amount of community plan aid for districts in the learning community is \$5.7 million in FY18, \$6 million in FY19 and \$6.2 million in FY20.

The aid is divided proportionately among the districts based on the sum of: 2% of the poverty allowance; 2% of the limited English proficiency allowance; and, for districts with greater than 40% poverty students, an amount equal to the statewide average general fund operating expenditures per formula student times 3% and then multiplied by the difference of the poverty students minus 40% of the formula students. The aid is included as an adjustment for the first two fiscal years of the achievement plan and thereafter the adjustment becomes an allowance in the formula. The aid is considered to be a resource for state aid purposes.

In order to receive community achievement plan aid, a plan must be submitted by the learning community coordinating council to the State Department of Education on or before January 1, 2017 for plans to be implemented in FY18. The plans are to be approved by the State Board of Education. If the plan is not approved for schools in the learning community prior to September 1, 2017, then the aid will be removed for the final calculation of state aid for the fiscal year.

Learning Community Transition Aid: Several school districts which are members of the learning community will receive learning community transition aid in FY2017-18 and FY2018-19. The aid calculation required by the bill is phased-in over the two year period at 50% in the first year and 25% in the second year. Learning community transition aid is not a resource for state aid purposes.

LB 1067 provides that learning community transition aid will be paid with funds from the Nebraska Education Improvement Fund (lottery). The use of lottery proceeds for transition aid will reduce funding available for expanded learning opportunity grants, competitive innovation grants, community college gap assistance, excellence in teaching loans, distance education incentives, and Nebraska opportunity grants. It is estimated transition aid will total \$1.1 million in FY18 and \$567,000 in FY19.

Net Option/ Income Tax Rebate Changes: The state aid formula currently caps the amount of funding that is allocated for net option and allocated income taxes at about \$102 million. The formula provides that the amount of net option funding required for districts is subtracted from the cap amount and the amount remaining is allocated to districts as allocated income tax funds. LB 1067 changes these provisions and has a net fiscal impact as follows:

Conversion of Open Enrollment Students to Option Students in the Learning Community: The bill provides that students in the learning community who are enrolled outside their resident district through the open enrollment program will become option enrollment students in FY17. The change increases the amount of funding required for the net option program. The increase in funding for the net option program reduces the amount of funds that can be allocated as allocated income taxes. An increase in aid for option students results in a decrease in allocated income taxes for all school districts in the state. The interaction of these two components of the formula reduces overall aid by about \$4.7 million per year.

Eliminate the Cap on Net Option/Allocated Income Taxes and Change the Income Tax Rebate: LB 1067 eliminates the \$102 million cap on the total amount of net option and allocated income taxes components of the formula. The bill provides for allocated income taxes for a district to be 2.23% of the income tax liability of a district. This change alleviates the reduction in allocated income taxes for districts in the state that results if the cap is maintained. The allocation percentage allows the amount of allocated income taxes in the formula to change each year in the future. The estimated impact of the change is \$7.5 million in FY18, \$9.6 million in FY19 and \$11.7 million of additional aid as allocated income taxes in FY20.

Net Fiscal Impact of Option/ Income Tax Changes: The estimated net fiscal impact of the changes in net option funding and the income tax rebate is \$2.8 million in FY18, \$4.8 million in FY19 and \$7 million in FY20.

Required Transportation for Open Enrollment Students: The bill requires option school districts to continue to provide free transportation for a student in the open enrollment program until the student leaves the school building. At some point in the future, as students currently enrolled in the open enrollment program graduate or move to different school buildings, transportation for schools in the learning community will be reduced. Transportation costs for open enrollment students are estimated to total about \$4.6 million beginning in FY17. Any changes in school spending impact the amount of state aid distributed two years later. So, decreased transportation expenditures by members of the learning community may impact state aid beginning in FY19.

NDE Responsibilities: The bill requires the student achievement coordinator in the State Department of Education (NDE) or other department staff to review community achievement plans. Plans are required to be submitted by the learning community coordinating council for school districts that are members of the learning community on or before January 1, 2017 for school fiscal year 2017-18. Plans are to be reviewed by February 15th so they can be revised prior to submission to the State Board of Education for approval at the board's April meeting. Approved plans are in effect for three years. Reports are to be submitted regarding the success of the plans after the first two years and every three years thereafter. NDE is to adopt rules and regulations. NDE does not indicate the need for any additional staff or resources to implement these provisions of the bill.

ESU Coordinating Council: Membership on the ESU Coordinating Council is increased to include one non-voting administrator from each learning community beginning July 1, 2017. The expansion of membership should have a minimal fiscal impact to reimburse expenses, if member expenses are paid.

Learning Community of Douglas and Sarpy Counties: The repeal of the common levy, special building fund levy and the change in the calculation of state aid impacts the school districts in the learning community, but not the learning community itself.

The learning community will have a minimal reduction in the duties with respect to preparing and submitting a budget for the common levy. The provisions of the bill which reduce the number of members on the learning community coordinating council from 18 to 12 will likely result in a small decrease in expenditures, if the expenses of these members are being paid. The workload of the learning community will increase to develop, submit, administer and evaluate community achievement plans in collaboration with school districts and other entities. It is assumed these duties can be handled with existing staff and resources.

See next page for total fiscal impact.

Summary: The estimated fiscal impact of the bill in terms of state aid is as follows for FY18 through FY20. The increase in lottery funds for transition aid is offset by a reduction in the use of lottery funds for other purposes.

TEEOSA Impact	FY2017-18	FY2018-19	FY2019-20
Eliminate the Common Levy	4,936,060	4,936,060	4,936,060
Community Achievement Plan Adjustment & Aid	5,739,338	5,968,912	6,207,668
Open Enrollment Students to Option Enrollment Students	-4,736,506	-4,736,506	-4,736,506
Remove Cap on Net Option/Income Taxes - Rebate to 2.23%	7,519,481	9,584,422	11,736,754
Total Est. General Fund Increase in TEEOSA Aid	\$13,458,373	\$15,752,888	\$18,143,976
Learning Community Transition Aid - Lottery Funds	1,135,312	567,656	0
Total Est. Fiscal Impact of LB 1067	\$14,593,685	\$16,320,544	\$18,143,976
Learning Community School Districts	14,575,869	14,579,052	14,605,842
Other School Districts	17,816	1,741,492	3,538,134
Total	\$14,593,685	\$16,320,544	\$18,143,976