

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised to clarify cigarette and sales tax revenue

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates) | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | FY 2019-20 | | FY 2020-21 | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE |
| GENERAL FUNDS | \$150,094,400 | \$202,093,000 | \$332,067,430 | \$502,678,000 |
| CASH FUNDS | | \$154,089,000 | | \$13,030,000 |
| FEDERAL FUNDS | | | | |
| OTHER FUNDS | | | | |
| TOTAL FUNDS | \$150,094,400 | \$356,182,000 | \$332,067,430 | \$515,708,000 |

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

LB 497 amends numerous revenue and taxation provisions and adopts the School District Property Tax Authority Act.

The School District Property Tax Authority Act: The act requires a school district's property tax request to be calculated as follows:

- Step 1: state and local resources are calculated based on the property tax request for the prior year and the state aid for the prior year, plus the base growth percentage (either 2.5% or inflation in the CPI-U, whichever is higher).
- Step 2: state aid for the current year is subtracted from the district's state and local resources calculated under step 1.
- Step 3: the amount determined under step 2 is either (1) decreased by the amount other resources for the current year are expected to exceed resources for the prior year; or (2) increased by the amount other resources for the prior year are expected to exceed resources for the current year.

Under the act, the school board must report the amount determined under step 3 to the State Department of Education (NDE), who will certify it. The amount certified will be the school district's property tax authority, which will be used for setting the district's maximum levy rate. This calculation method does not apply to the property tax request needed to pay principal and interest on bonds or to levy overrides approved by voters.

The maximum levy for a school district or multiple-district school system is the property tax authority calculated under the act, multiplied by the assessed valuation of the district or system, and then multiplied by 100. In LB 497, the local effort rate is 0.9750 beginning in FY 20-21, and the adjusted valuation for agricultural and horticultural land and for land receiving special valuation is 52% for tax year 2020, 42% for tax year 2019, and 37% thereafter.

LB 497 requires aid distributed pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA) to each local system to be:

- In FY 20-21, 35% of the basic funding or the amount calculated pursuant to the TEEOSA formula, whichever is greater;
- In FY 21-22, 45% of the basic funding or the amount calculated pursuant to the TEEOSA formula, whichever is greater; and
- For FY 22-23 and thereafter, 50% of the basic funding or the amount calculated pursuant to the TEEOSA formula, whichever is greater.

The bill lowers the applicable percentage of actual value for purposes of school district taxation for agricultural and horticultural land and for land receiving special valuation from 75% to 55% in tax year 2020, 45% in tax year 2021, and 40% in tax years thereafter. The acceptable range for agricultural and horticultural land and land receiving special valuation for school district taxation as a percentage of actual value for purposes of the Tax Equalization and Review Commission Act is as follows:

- For tax year 2020, 49 to 55%;
- For tax year 2021, 39 to 45%; and
- For tax year 2022 and thereafter, 34 to 40%.

By lowering the local effort rate, instituting payments that are the greater of either calculated aid under the TEEOSA formula or a percentage of basic funding, and lowering the valuation of agricultural and horticultural land for purposes of school district taxation, NDE estimates almost every school district would see an increase in TEEOSA, which should reduce property taxes by a corresponding amount.

The Legislative Fiscal Office estimates the fiscal impact on TEEOSA in FY21 is \$346.8 million. In the following biennium, the fiscal impact is \$541.8 million in FY22 and \$657.8 million in FY 23.

The Legislative Fiscal Office estimates each component of the act to have the following fiscal impact to TEEOSA:

| | TEEOSA AID | FY 19-20 | FY 20-21 | FY 21-22 | FY 22-23 | FY 23-24 |
|-------|----------------------------------|----------|---------------|---------------|---------------|---------------|
| | Change in LB 497: | | | | | |
| FY 21 | Local Effort Rate to 0.975 | \$0 | \$35,617,188 | \$35,617,188 | \$35,617,188 | \$35,617,188 |
| FY 21 | Minimum Aid at 35% Basic Funding | \$0 | \$311,213,842 | \$311,213,842 | \$311,213,842 | \$311,213,842 |
| FY 22 | Ag land to 55% | \$0 | | \$19,410,070 | \$19,410,070 | \$19,410,070 |
| FY 22 | Minimum Aid at 45% Basic Funding | \$0 | | \$175,590,308 | \$175,590,308 | \$175,590,308 |
| FY 23 | Ag land to 45% | \$0 | | | \$8,169,655 | \$8,169,655 |
| FY 23 | Minimum Aid at 50% Basic Funding | \$0 | | | \$107,803,876 | \$107,803,876 |
| FY 24 | Ag land to 40% | \$0 | | | | \$3,600,720 |
| | Total | \$0 | \$346,831,030 | \$541,831,408 | \$657,804,939 | \$661,405,659 |

The impact of reducing the percentage of valuation for agricultural and horticultural land is understated in the act because the provision requiring minimum aid payments of a percentage of basic funding captures most of the change in TEEOSA aid.

Alcoholic Liquor Tax Changes: The bill changes tax rates for alcoholic liquor, beginning January 1, 2020, as follows:

- Increases the tax rate for beer from \$0.31 per gallon to \$1.38 per gallon;
- Increases the tax rate for wine from \$0.95 per gallon to \$3.51 per gallon, except the tax rate for wine from farm wineries increases from \$0.06 per gallon to \$2.62 per gallon; and
- Increases the tax rate for alcohol and spirits from \$3.75 per gallon to \$12.28 per gallon.

Increasing the taxes on alcoholic liquor as prescribed is estimated to have a fiscal impact of \$35.268 million in FY20 and \$89.442 million in FY21 by the Department of Revenue (DOR). The Nebraska Liquor Control Commission (NLCC) estimates a fiscal impact of \$37.472 million in FY20 and \$89.932 in FY21. The estimates do not make significant adjustments for changes in consumption patterns based upon the large increases in excise tax on alcohol, which we agree seems reasonable because there is not reliable data to do so. We estimate the fiscal impact for FY20 is \$36.37 million and for FY21 is \$89.687 million.

Sales and Use Tax Changes: The bill changes sales and use tax provisions, beginning January 1, 2020, as follows:

- Eliminates the exemption for food for home consumption;
- Eliminates the exemption for memberships or admissions to or purchases by a zoo or aquarium;
- Imposes sales and use tax on the following services:
 - motor vehicle maintenance and repair;
 - dry cleaning;
 - maintenance of real property;
 - pet-related services;
 - nonbusiness legal services;
 - storage services
 - personal care services, including hair care, massages, nail services, spa services, and tattoo services;
 - travel agency services; and
 - dating and escort services.

DOR estimates the following revenue from the sales and use tax provisions in LB 497:

| | FY 19-20 | FY 20-21 |
|---|---------------|---------------|
| General Fund Sales Tax, including Sales Tax on Cigarettes | \$126,127,000 | \$321,820,000 |
| State Highway Capital Improvement | | |
| New Sales Tax | \$4,020,000 | \$12,830,000 |
| Sales Tax on Cigarettes | \$69,000 | \$200,000 |
| Highway Allocation Fund | | |
| New Sales Tax | \$710,000 | \$2,260,000 |
| Sales Tax on Cigarettes | \$12,000 | \$35,000 |

Based on the available data, these estimates seem reasonable.

Cigarette Tax Changes: The bill increases the cigarette tax rate from \$0.64 per pack to \$2.14 per package beginning January 1, 2020. DOR estimates the fiscal impact of this increase will be \$39.508 million in FY20 and \$91.171 million in FY21.

Personal Property Tax Exemption: The bill eliminates the personal property tax exemption under the Personal Property Tax Relief Act, for tax year 2020 and after. The elimination in the personal property tax exemption will result in a General Fund expenditure savings of \$14.8 million in FY21.

Cash Reserve: The bill requires a credit to the Cash Reserve Fund of \$150 million on or before June 30, 2020. This is a one-time transfer from the General Fund to the Cash Reserve Fund.

Administration: DOR estimates administrative costs of \$34,400 in FY20 and \$36,400 in FY21 for 0.5 FTE Revenue Tax Specialist to implement the bill. In addition, NLCC estimates a one-time cost of \$60,000 to update their online reporting system. NDE estimates minimal cost to implement the bill. These estimates seem reasonable.

| ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE | | | |
|--|-----------------|---|--|
| LB: 497 | AM: | AGENCY/POLT. SUB: Liquor Control Commission | |
| REVIEWED BY: Lee Will | DATE: 2/13/2019 | PHONE: (402) 471-4175 | |
| COMMENTS: The Liquor Control Commission's assessment of fiscal impact seems reasonable given the assumptions used. | | | |

| ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE | | | |
|--|-----------------|---|--|
| LB: 497 | AM: | AGENCY/POLT. SUB: Department of Revenue | |
| REVIEWED BY: Lee Will | DATE: 2/12/2019 | PHONE: (402) 471-4175 | |
| COMMENTS: The Department of Revenue's assessment of fiscal impact seems reasonable given the assumptions used. | | | |

| ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE | | | |
|--|-----------------|---|--|
| LB: 497 | AM: | AGENCY/POLT. SUB: Department of Education | |
| REVIEWED BY: Lee Will | DATE: 2/11/2019 | PHONE: (402) 471-4175 | |
| COMMENTS: The Department of Education's statement of fiscal impact seems reasonable given the assumptions used. The additional resources provided by an increase in state aid is likely to reduce property taxes in the majority of school districts. Also, the General Fund state aid articulated in FY 2020-21 by the Department will continue to grow as the basic funding increases over 3 years until it reaches 50% in FY 2022-23. | | | |

Please complete ALL (5) blanks in the first three lines.

2019

LB⁽¹⁾ 497 REVISION 2

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Liquor Control Commission

Prepared by: ⁽³⁾ LeAnna Prange Date Prepared: ⁽⁴⁾ 2/12/19 amended Phone: ⁽⁵⁾ 402-471-4892

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

| | <u>FY 2019-20</u> | | <u>FY 2020-21</u> | |
|--------------------|----------------------|--------------------------|---------------------|--------------------------|
| | <u>EXPENDITURES</u> | <u>REVENUE</u> | <u>EXPENDITURES</u> | <u>REVENUE</u> |
| GENERAL FUNDS | <u>60,000</u> | <u>37,471,875</u> | <u>0</u> | <u>89,932,499</u> |
| CASH FUNDS | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| FEDERAL FUNDS | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| OTHER FUNDS | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL FUNDS | <u>60,000</u> | <u>37,471,875</u> | <u>0</u> | <u>89,932,499</u> |

Explanation of Estimate:

NLCC is proposing \$60,000 expenditure to amend all online reporting systems to the proposed excise tax rates. This is an estimate only.

The total gallons used in calculation is the total gallons reported for excise tax in 2018. Therefore, these are the gallons used in calculating the increase. It would be the determination of NLCC that total gallons may not remain consistent to 2018 due to 1) decrease in consumption and 2) a probable increase of non Nebraska taxed product being illegally imported into the State. That probable increase in illegal importation would result in additional resources expended by the Nebraska State Patrol and the NLCC to enforce all applicable laws. However, the additional resources required is impossible to quantify.

The Revenue increase is outlined in this table:

| Based on 2018 reported gallons to NLCC | | | | | |
|--|-----------------|-----------------|----------------|--------------|-------------------------|
| | Beer | Spirits | Wine | Farm Wine | Total Revenue |
| Gallons | 44,803,876 | 3,876,088 | 3,394,878 | 93,138 | |
| Current rate | \$0.31 | \$3.75 | \$0.95 | \$0.06 | |
| Current Revenue | \$13,889,201.56 | \$14,535,330.00 | \$3,225,134.10 | \$5,588.28 | \$31,655,253.94 |
| Proposed rate | \$1.38 | \$12.28 | \$3.51 | \$2.62 | |
| Difference of rate | \$1.07 | \$8.53 | \$2.56 | \$2.56 | |
| Increase of Revenue | \$47,940,147.32 | \$33,063,030.64 | \$8,690,887.68 | \$238,433.28 | \$89,932,498.92 |
| TOTAL REVENUE if LB 497 passes (assuming consumption remains identical to 2018) | | | | | \$121,587,752.86 |

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

| <u>POSITION TITLE</u> | <u>NUMBER OF POSITIONS</u> | | <u>2019-20</u> | <u>2020-21</u> |
|---------------------------|----------------------------|--------------|---------------------|---------------------|
| | <u>19-20</u> | <u>20-21</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| Benefits..... | | | 0 | 0 |
| Operating..... | | | 60,000 | 0 |
| Travel..... | | | 0 | 0 |
| Capital outlay..... | | | 0 | 0 |
| Aid..... | | | 0 | 0 |
| Capital improvements..... | | | 0 | 0 |
| TOTAL..... | | | 60,000 | 0 |

NLCC has 5 online reporting systems that collect excise taxes. These online reporting systems will need to be revised to accommodate new excise tax rates. There would be no change to where the excise tax is deposited (General Fund). NLCC has confirmed with the vendor who maintains these reporting systems and estimated the cost of required programming.

State Agency Estimate

State Agency Name: Department of Revenue

Date Due LFA:

Approved by: Tony Fulton

Date Prepared:

Phone: 471-5896

| | FY 2019-2020 | | FY 2020-2021 | | FY 2021-2022 | |
|--------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Expenditures | Revenue | Expenditures | Revenue | Expenditures | Revenue |
| General Funds | \$150,034,400 | \$201,093,000 | (\$14,763,600) | \$502,433,000 | (\$15,164,300) | \$522,277,000 |
| Cash Funds | | \$154,089,000 | | \$13,030,000 | | \$13,774,000 |
| Federal Funds | | | | | | |
| Other Funds | | \$722,000 | | \$2,295,000 | | \$2,434,000 |
| Total Funds | \$150,034,400 | \$355,904,000 | (\$14,763,600) | \$517,758,000 | (\$15,164,300) | \$538,485,000 |

LB 497 would increase the tax rates on cigarettes and alcohol and eliminate several sales tax exemptions. LB 497 also changes the school district’s property tax authority, reduces the valuation of agricultural and horticultural land, and eliminates the Personal Property Tax Relief Act. The operative date of this bill is January 1, 2020. The changes are summarized below.

Alcohol Tax:

LB 497 increases taxes imposed on manufacturers and wholesalers of alcoholic beverages. The tax rate on beer would be increased from \$0.31 per gallon to \$1.38 per gallon; the tax rate on wine not produced and released from farm wineries is increased from \$0.95 per gallon to \$3.51 per gallon; the tax rate on wine produced and released from farm wineries is increased from \$0.06 per gallon to \$2.62 per gallon; and the tax rate on alcohol and spirits is increased from \$3.75 per gallon to \$12.28 per gallon. This bill also increases penalty on non-beverage licensees that dispose of any alcoholic liquor in a form fit for beverage purposes from \$3.75 per gallon to \$12.28 per gallon.

Sales Tax:

LB 497 adds a number of services to the tax base and removes those services from the Department’s annual report on estimated revenue lost due to tax expenditures. The newly taxed services include: real property maintenance services; dry cleaning services; pet-related services; nonbusiness legal services; storage services; personal care services including hair care, massages, nail services, spa services, and tattoo services; travel agency services, and dating and escort services. LB 497 also eliminates the sales tax exemption on food or food ingredients and on memberships and admissions to zoos and aquariums.

Property Tax:

LB 497 restricts the school district’s property tax authority to the amount necessary to meet the school’s calculated needs. Under LB 497, the valuation of agricultural land and horticultural land, including those lands qualifying for special valuation, would be valued at 55% in tax year 2020, 45% in tax year 2021, and 40% in tax years 2022 and beyond for school purposes only. LB 497 eliminates the Personal Property Tax Relief Act beginning in tax year 2020.

Major Objects of Expenditure

| Class Code | Classification Title | 19-20 FTE | 20-21 FTE | 21-22 FTE | 19-20 Expenditures | 20-21 Expenditures | 21-22 Expenditures |
|---------------------------|------------------------|--------------|--------------|--------------|-----------------------|-----------------------|-----------------------|
| A29621 | Revenue Tax Specialist | 0.5 | 0.5 | 0.5 | \$25,900 | \$27,400 | \$26,800 |
| Benefits..... | | | | | | | |
| Operating Costs..... | | | | | | | |
| Travel..... | | | | | | | |
| Capital Outlay..... | | | | | | | |
| Capital Improvements..... | | | | | | | |
| Total..... | | | | | | | |
| | | | | | \$8,500 | \$9,000 | \$8,900 |
| | | | | | \$34,400 | \$36,400 | \$35,700 |

Cigarette Tax:

LB 497 increases the cigarette tax by \$1.50 per package.

LB 497 credits \$150,000,000 to the Cash Reserve Fund.

It is estimated that LB 497 would have the following impact to the General Fund, Cash Fund, and Other Funds:

| | FY 2019-2020 | FY 2020-2021 | FY 2021-2022 | FY 2022-2023 |
|---|----------------|-----------------|-----------------|-----------------|
| General Fund (Revenue) | \$ 201,093,000 | \$ 502,433,000 | \$ 522,277,000 | \$ 542,277,000 |
| New Sales Tax | \$ 124,190,000 | \$ 316,880,000 | \$ 335,620,000 | \$ 354,480,000 |
| Alcoholic Beverage Tax | \$ 35,268,000 | \$ 89,442,000 | \$ 94,061,000 | \$ 98,679,000 |
| Cigarette Tax | \$ 41,635,000 | \$ 96,111,000 | \$ 92,596,000 | \$ 89,118,000 |
| General Fund (Expenditure) | \$ 150,000,000 | \$ (14,800,000) | \$ (15,200,000) | \$ (15,600,000) |
| Personal Property Tax Relief Act | \$ - | \$ (14,800,000) | \$ (15,200,000) | \$ (15,600,000) |
| Cash Fund Credit | \$ 150,000,000 | \$ - | \$ - | \$ - |
| State Highway Capital Improvement Fund (Cash Fund) | \$ 4,089,000 | \$ 13,030,000 | \$ 13,774,000 | \$ 14,538,000 |
| Cigarette Tax* | \$ 69,000 | \$ 200,000 | \$ 194,000 | \$ 188,000 |
| New Sales Tax | \$ 4,020,000 | \$ 12,830,000 | \$ 13,580,000 | \$ 14,350,000 |
| Highway Allocation Fund (Other Fund) | \$ 722,000 | \$ 2,295,000 | \$ 2,434,000 | \$ 2,563,000 |
| Cigarette Tax* | \$ 12,000 | \$ 35,000 | \$ 34,000 | \$ 33,000 |
| New Sales Tax | \$ 710,000 | \$ 2,260,000 | \$ 2,400,000 | \$ 2,530,000 |
| Cash Reserve Fund (Cash Fund) | \$ 150,000,000 | \$ - | \$ - | \$ - |

* This is the additional sales tax collected from the increase in cigarette price.

The Department would require 0.5 FTE Revenue Tax Specialist beginning 7/1/2019 to implement this bill.

Please complete ALL (5) blanks in the first three lines.

2019

LB⁽¹⁾ 497

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Department of Education

Prepared by: ⁽³⁾ Bryce Wilson Date Prepared: ⁽⁴⁾ 1/24/19 Phone: ⁽⁵⁾ 402-471-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

| | <u>FY 2019-20</u> | | <u>FY 2020-21</u> | |
|--------------------|---------------------|----------------|----------------------|----------------|
| | <u>EXPENDITURES</u> | <u>REVENUE</u> | <u>EXPENDITURES</u> | <u>REVENUE</u> |
| GENERAL FUNDS | _____ | _____ | \$336,000,000 | _____ |
| CASH FUNDS | _____ | _____ | _____ | _____ |
| FEDERAL FUNDS | _____ | _____ | _____ | _____ |
| OTHER FUNDS | _____ | _____ | _____ | _____ |
| TOTAL FUNDS | ===== | ===== | \$336,000,000 | ===== |

Explanation of Estimate:

LB 497 limits property tax requests for school districts to the property tax authority amount certified per the property tax authority act. Agricultural and horticultural valuations for school district taxation purposes and the calculation of TEEOSA would be decreased over a period of three year down to 40%. This bill also change the local effort rate used to determine local resources to \$.9750 beginning with the 2020/21 TEEOSA calculation. LB 497 further creates a minimum amount of TEEOSA for every school district which is a percent of basic funding that increases over three years until it reaches 50%. Lastly, this bill creates several new sources of revenue for the state by increasing sales tax on certain items, eliminating sales tax exemptions on other items and eliminating the personal property tax credit.

There is no significant fiscal cost to NDE. There would be a significant fiscal cost to the State but also additional revenue for the State. Almost every school districts would see an increase in TEEOSA which would reduce property taxes by a corresponding amount allowing for a total growth of 2.5% or an inflation factor whichever is greater. The estimated expense was determined using information for the 2019/20 certification of TEEOSA with the 2020/21 changes to the LER and minimum aid calculation.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

| <u>POSITION TITLE</u> | <u>NUMBER OF POSITIONS</u> | | <u>2019-20</u> | <u>2020-21</u> |
|---------------------------|----------------------------|--------------|---------------------|----------------------|
| | <u>19-20</u> | <u>20-21</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| Benefits..... | _____ | _____ | _____ | _____ |
| Operating..... | _____ | _____ | _____ | _____ |
| Travel..... | _____ | _____ | _____ | _____ |
| Capital outlay..... | _____ | _____ | _____ | _____ |
| Aid..... | _____ | _____ | _____ | \$336,000,000 |
| Capital improvements..... | _____ | _____ | _____ | _____ |
| TOTAL..... | _____ | _____ | _____ | \$336,000,000 |