

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2015-16		FY 2016-17	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			\$106,882,000	
CASH FUNDS			See Below	
FEDERAL FUNDS				
CASH RESERVE FUND	\$11,000,000			
TOTAL FUNDS	\$11,000,000		\$106,882,000	

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

LB 521 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA). The bill also distributes the property tax credit to school districts as state aid and reduces the levy limit for school districts by the amount of the property tax credit rate. The fiscal estimate for FY2016-17 is computed using data from the preliminary aid certification for FY2015-16.

Property Tax Credit: The bill provides for the entire amount of property tax credit funds to be allocated to school districts as part of TEEOSA aid based upon the appropriation and the proportionate share of a school district's adjusted valuation beginning in FY2016-17. The appropriation to the Property Tax Credit Cash Fund is \$140 million in FY 2014-15. The amount of aid received as a property tax credit is considered to be a local resource for state aid purposes. The change in allocating the property tax credit increases TEEOSA aid by approximately \$69 million in FY17.

Property Tax Levy Limit Reduction: Beginning in FY17, LB 521 reduces the current \$1.05 levy limit for school districts (\$.95 for learning communities) by the amount of the property tax credit rate. Based upon an appropriation of \$140 million, the property tax credit rate will be \$.067810. The levy limit for school districts will be reduced to \$.98 and the learning community to \$.88. The actual impact upon property taxes levied depends upon whether a decrease in the levy limit forces a school district to decrease its levy.

Local Effort Rate: The local effort rate in the formula is currently set at \$1.00 for FY2015-16. LB 521 decreases the local effort rate to \$.95 less the property tax credit rate for FY17 and thereafter. The bill decreases the local effort rate in the formula to \$.88. A decrease in the local effort rate increases the amount of state aid provided to school districts because the formula assumes a district has decreased resources. The estimated increase in state aid is \$125.4 million in FY17.

Allocated Income Taxes**: It is assumed the bill removes the cap on the amount of funds that are disbursed through the formula as allocated income taxes and net option funding and provides for 10% of the aggregate statewide income tax liability of all resident individuals for the prior year to be included in the formula as allocated income taxes. Each school district's allocated income tax funds will be provided as student support aid. The aid per student will be calculated by taking 10% of the prior year statewide income tax liability for resident individuals divided by the number of formula students. The amount per student will be multiplied by the number of formula students in a district to determine allocated income taxes.

Current law caps at \$102,289,817 the amount to be included as a resource for allocated income taxes and net option funding in the TEEOSA formula. Using 10% of the income tax liability for student support aid rather than the capped amount, will increase state aid by an estimated \$27.3 million in FY17. Since allocated income taxes are included as a resource in the formula, the change will only impact school districts not currently receiving equalization aid.

Elimination of the Minimum Levy Adjustment and Non-equalized Minimum Levy Adjustment: Beginning in FY2016-17, the bill eliminates the minimum levy adjustment which reduces resources for school districts that do not levy at least \$.10 less than the required maximum levy (\$.05 for learning communities). The bill also eliminates provisions which reduce allocated income taxes for non-equalized schools that do not levy the minimum required amount.

Eliminating the minimum levy adjustment increases resources for equalized school districts that do not levy the required amount by an estimated \$2.7 million. Deletion of the reduction in allocated income taxes for non-equalized schools which do not levy the minimum required amount increases aid to these districts by an estimated \$5.6 million.

Allowances: Beginning in FY2016-17 and each year thereafter, 50% of the following allowances calculated for a school district will be paid as direct aid: summer school allowance; focus school and program allowance; poverty allowance; limited English proficiency allowance; transportation allowance; distance education and telecommunications allowance; and, elementary site allowance.

Currently, allowances are included for each school district as part of the needs calculation. Districts that do not receive equalization aid because their resources are greater than their needs do not benefit from allowances. The bill provides direct aid to school districts for 50% of the allowed expenditures. The estimated increase in TEEOSA aid in FY17 is \$26.2 million. The aid increase will only go to non-equalized school districts because the bill provides that the amounts received as direct aid for these allowances will be included as a formula resource for purposes of calculating state aid which negates the impact for equalized school districts.

Net Option Funding: The bill changes the calculation of net option funding for school districts beginning in FY17. Currently, net option funding is based upon the number of net option students times the statewide average basic funding per formula student. The bill provides that the basic funding per formula student used in the calculation shall be reduced by the amount received per student from state apportionment and income taxes. Currently, \$58.6 million is allocated through the formula for net option funding. It is estimated the change in calculation will reduce state aid in FY16 by \$13.3 million which will impact the aid received by non-equalized school districts.

State Apportionment Funding: The bill provides for state apportionment funding (revenue from school lands) from the Temporary School Fund to be allocated per the TEEOSA formula. School districts currently receive state apportionment proportionately based upon the census of all students (public and private) in their district. LB 521 provides a per student allocation based upon formula students in the district (public only). The funds are local resources in the formula currently and remain as such in the bill.

Changing how state apportionment aid is provided may have a minimal fiscal impact for the state, but the change has not been modeled. The estimated fiscal impact of the change for individual school districts will vary, depending upon the concentration of private schools in a district.

Cash Reserve Fund Transfer: The bill also provides for a one-time transfer of funds from state Cash Reserve Fund to transition between methods for distributing state apportionment funds. On or before October 15, 2015 the State Treasurer is required to transfer an amount equal to 25% of the state apportionment funds paid to schools in 2015 to the Temporary School Fund. State apportionment in FY14 was about \$44 million. Based upon this amount, the transfer from the Cash Reserve fund to the Temporary School Fund in FY2015-16 is projected to be \$11 million.

Averaging Adjustment: LB 521 eliminates the requirements for a school district with at least 900 formula students to levy a certain amount in order to be eligible for the averaging adjustment. It is assumed this change will not have a significant impact on TEEOSA payments, but the change has not been modeled. Eliminating the levy requirement may increase the number of districts receiving aid per the averaging adjustment.

Learning Community Aid: The bill eliminates language requiring state aid for a learning community to be calculated as a whole rather than separately for school districts in a learning community. It is estimated the change will increase TEEOSA aid for the eleven districts in the learning community by \$3.8 million in FY17.

In summary, the estimated increase in general funds for TEEOSA aid per LB 521 for FY2016-17 is calculated as follows.

	FY 2015-16	FY 2016-17
Shift \$140 M of Property Tax Credits to TEEOSA	0	69,036,180
Local Effort Rate	0	125,426,924
Allocated Income Taxes	0	27,317,409
Minimum Levy Adjustment	0	2,718,732
Non-equalized Minimum Levy Adjustment	0	5,580,497
Allowances as Direct Aid	0	26,240,995
Net Option Funding	0	-13,262,515
State Apportionment Funding*	0	0
Averaging Adjustment*	0	0
Learning Community Aid	0	3,824,286
Total TEEOSA Fiscal Impact	\$0	\$246,882,508

*May have a unknown fiscal impact, not projected to be significant

Total TEEOSA Fiscal Impact	\$246,882,508
Shift Aid for Property Tax Credits to TEEOSA	<u>-\$140,000,000</u>
Net General Fund Aid Impact of LB 521	\$106,882,508

Cash Reserve Fund Transfer	\$11,000,000	0
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Note that cash fund expenditures of the Department of Revenue for property tax credits will decrease by \$140 million in FY17 and a like increase in cash funds will be expended by NDE for TEEOSA aid. The net change in cash fund expenditures will be zero.

**Technical Note: It is assumed that current statutory provisions regarding allocated income taxes will be repealed and replaced with the income tax per student support payment.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB:521	AM:	AGENCY/POLT. Department of Revenue	
REVIEWED BY: James Van Bruggen		DATE: 2/24/2015	PHONE: 471-4179
COMMENTS: Concur with the Department of Revenue's assessment.			

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

2015

LB⁽¹⁾ 521

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Dept of Education

Prepared by: ⁽³⁾ Bryce Wilson

Date Prepared: ⁽⁴⁾ 1/22/15

Phone: ⁽⁵⁾ 402-471-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2015-16</u>		<u>FY 2016-17</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 521 changes the property tax credit so that it reduces that amount of the district tax request. The amount is appropriated to each district based on their percentage of the total state valuation. This bill would also change the allocated income tax component of TEEOSA so that each district will receive 10% of their districts income tax liability as aid. LB 521 moves the apportionment payments into the TEEOSA formula and changes the calculation to be based on formula students instead of census students.

This bill makes several changes to the TEEOSA formula that benefit non-equalized districts such as eliminating the minimum levy adjustment and creating aid components for all the allowances so that non-equalized districts will still receive 50% of the funding associated with each allowance they receive. TEEOSA is also changed to eliminate the levy requirements associated with the averaging adjustment.

Eliminating the minimum levy adjustment and adding the 10% allocated income tax funding results in an increase of around \$35 million dollars to the TEEOSA calculation. We are not able to estimate the other components of this bill at this time.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2015-16</u>	<u>2016-17</u>
	<u>15-16</u>	<u>16-17</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____

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

2015

LB⁽¹⁾ 521

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska State Treasurer

Prepared by: ⁽³⁾ Jason Walters

Date Prepared: ⁽⁴⁾ January 29, 2015

Phone: ⁽⁵⁾ 402-471-2793

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2015-16</u>		<u>FY 2016-17</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:
No fiscal impact

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2015-16</u>	<u>2016-17</u>
	<u>15-16</u>	<u>16-17</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____