

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES * | | | | |
|---|---------------------|----------------|---------------------|----------------|
| | FY 2009-10 | | FY 2010-11 | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE |
| GENERAL FUNDS | | | | |
| CASH FUNDS | See Below | Transfer | See Below | Transfer |
| FEDERAL FUNDS | | | | |
| OTHER FUNDS | | | | |
| TOTAL FUNDS | See Below | Transfer | See Below | Transfer |

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 546 provides for the state to fund incentive payments to encourage Class II and III school districts with less than 390 students to reorganize into Class II, III, IV or V school districts with greater than 390 students. The incentive payments apply to consolidations after May 31, 2009 and before June 1, 2011. Incentives are paid to reorganized schools for two years. The incentive payments are provided from the School District Reorganization Fund.

The bill provides that funds transferred to the Education Innovation Fund from the School District Reorganization Fund (SDRO) shall be transferred back to the SDRO Fund in 2009-10. The source of the funds are lottery proceeds. The State Department of Education transferred \$456,912 from the SDRO to the Education Innovation Fund on January 14, 2009. These funds will be transferred back per the bill to be used for incentive payments.

School districts qualifying for an incentive pursuant to the bill will receive \$125,000. In addition, the district receives \$500 per student times the difference between 390 students minus the average membership in the district. The initial base year incentive equals 50% of this calculation. The funds are to be prorated if the total is insufficient to fund all schools qualified for incentives.

The remainder of the fund is allocated in the second year. The second year allocation is the remaining 50% of the calculated incentive. The funds are prorated in the second year if the total is insufficient to fund all of the schools qualified for incentives. Neither base year or second year incentives are considered to be resources for purposes of calculating state aid to school districts.

It is unknown how many Class II and Class III school districts will opt to consolidate during the time period allowed in the bill to receive an incentive. In 2007-08, there were 140 Class II and III school districts with less 390 students. The amount of funding available from the SDRO will allow about three districts to receive an incentive in the full amount as provided by the bill. If more than three reorganizations occur, then incentives will be prorated.

It is assumed the reorganization of school districts into districts with 390 or more students will result in efficiencies which will reduce the overall amount expended by school districts. Decreased spending by school districts reduces state aid two years later. School districts opting to consolidate may initially have increased expenditures related to consolidation such as retirement incentives and staff development.