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LB 366

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2007-08		FY 2008-09	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			199,925,000	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			199,925,000	

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

Community College Impact

Under provisions of LB366, the authority of community college areas to levy property taxes would be eliminated as of January 1, 2008. Given this operative date, community college areas presumably will levy property taxes for 2007-08, but will no longer have authority to levy taxes for 2008-09. In order to maintain current services provided by community colleges, an alternative revenue source or sources would be required to offset lost property tax revenue. For purposes of this fiscal note, it is assumed that community college areas would, at a minimum, seek state General Fund appropriations in amounts sufficient to replace lost property tax revenue.

According to 2006 certificates of taxes levied, the community college areas levied property taxes totaling $83,840,819 for 2006-07 to support area operating budgets. Assuming a revenue realization rate of 97% (netting 1% for county treasurer collection fees and 2% for delinquencies and uncollectibles) yields an estimated 2006-07 annualized property tax revenue level of $81,325,594. According to supporting information accompanying the 2007-09 community college system state aid request, property tax revenue to support systemwide operating budgets for 2006-07 is budgeted at $81,425,372. Levels of property taxes levied and budgeted for 2007-08 will be significantly dependent upon the level of state aid appropriated for community college areas for 2007-08. As such, estimating the level of levied and budgeted property taxes for 2007-08 for which replacement funding is likely to be sought for 2008-09 is indeterminate. However, unless community college state aid appropriations are increased substantially for 2007-08, the level of property tax replacement funding that would be sought for 2008-09 very likely would not be less than the $81,425,372 budgeted for 2006-07.

LB366 (Sec. 40) provides that the Legislature is to appropriate aid to community colleges to fund 80% of “community colleges’ need” and provides that the base year for calculating need is to be 2006-07 with future adjustments reflecting increases equal to 2% plus the percentage increase, if any, in full-time equivalent students from the second year to the first year preceding the year for which the aid is being determined. “Community colleges’ need” is not a term defined by LB366; therefore, computation of 80% of the amount is indeterminate. According to supporting information accompanying the 2007-09 community college system state aid request, funds from all sources budgeted to support community college operations for 2006-07 totals $210,123,692. Assuming no increases in full-time enrollment and applying the minimum authorized growth rate of 2% for each of 2007-08 and 2008-09 to 2006-07 total funds budgeted for operations yields $218,612,689. An appropriation of 80% of this amount would represent $174,890,151 or an increase of $106,323,675 beyond the $68,566,476 General Funds appropriated for 2006-07 community college aid. While the term “community colleges’ need” is not defined by LB366 and 80% of the amount is uncertain, the bill provides that if the Legislature fails to appropriate 80% of “community colleges’ need,” the level of appropriated aid is to be apportioned on a pro rata basis. Given this provision, 80% of “community colleges’ need” apparently does not represent an entitlement level of aid that is required to be met.

LB366 (Sec. 37) provides that any community college debt existing on January 1, 2008 which pledges property tax revenue is to be a valid obligation of the property tax and property taxes are to be levied to satisfy debt service until the obligation is liquidated. For purposes of this fiscal note, these obligations are interpreted to represent long-term obligations reliant upon property tax levies for repayment. It is further assumed that outstanding revenue bond obligations would be excluded from this provision. A review of June 30, 2006 financial audits reflects outstanding long-term obligations that are reliant upon property tax levies for repayment. These obligations amount to $25,372,097. Principal reductions scheduled for 2006-07 amount to $1,462,941. An additional debt issue approximating $3,500,000 is anticipated to become an obligation early in 2007. Given the foregoing, long-term obligations reliant on property tax levies for repayment that are estimated to be outstanding at the close of 2006-07 amount to $27,409,176. Property taxes apparently would continue to be levied for relevant community college areas beyond 2007-08 in amounts sufficient to amortize related obligations.

For 2006-07, systemwide community college area property tax levies for capital improvements amount to $11,989,257. Assuming a revenue realization rate of 97% (netting 1% for county treasurer collection fees and 2% for delinquencies and uncollectibles) yields an estimated 2006-07 annualized property tax revenue level of $11,629,579 to support community college area capital improvements. LB366 will eliminate community college area property tax levying authority to support capital improvements. Elimination of the related property tax levying authority will place new demands on state General Fund appropriations for capital projects as the respective community college area boards request related funding. The extent to which the Legislature would respond to such demands is indeterminate. Elimination of the related property tax levying authority will presumably also place additional significant demands upon the Task Force for Building Renewal for allocation of some portion of its available resources for building renewal projects across the community college system.

Effectively converting the community colleges from six independent political subdivisions to agencies of state government will likely impact certain central services supplied by the Department of Administrative Services (DAS) to state agencies. Adjustments to revolving fund appropriation authority may be proposed by DAS to accommodate provision of certain central services to community colleges. No estimate of such adjustments is currently available.

Agricultural Land Valuation Impact

The bill would provide that for purposes of property taxation, agricultural land is to be valued at 70% of its actual value rather than 75% of value per current law. The change would become operative January 1, 2008.

The Fiscal Office estimates a reduction in agricultural land valuations of $1.6 billion resulting in a $12.5 million shift of property taxes to non-agricultural land taxpayers. In turn, it is estimated the reduced valuations will result in an increase of TEEOSA aid for equalized school systems approximating $12.5 million.

Homestead Exemption Impact

The bill would provide that the first $12,000 of the actual value of all homesteads in the state is to be exempt from taxation beginning with tax year 2008. Taxpayers would be required to file an application the first year the exemption is claimed. For subsequent years, if a taxpayer has been granted the exemption, no reapplication would be required. The Department of Revenue estimates expenditures under the homestead exemption program to increase by approximately $99.0 million annually beginning in 2008-09. The Department's estimate appears reasonable.

Summary of LB366 General Fund Impacts	**2008-09**
Replace community college loss of funds due to elimination of property tax levy for operations – minimum:	$81,425,000
Agricultural land valuation decrease – resulting increase of TEEOSA school aid:	12,500,000
Homestead exemption - first $12,000 of actual value of all homesteads:	99,000,000
	$192,925,000

DEPARTMENT OF ADMINISTRATIVE SERVICES

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COMMENTS

DEPT. OF EDUCATION - By reducing agricultural land valuations from 75% of market value to 70%, LB 366 would reduce taxable property valuations by nearly $1.8 billion statewide, reducing formula resources in the TEEOSA state aid formula.

If agricultural land had been valued at just 70% of market value when the FY 2006-07 TEEOSA aid was certified in February of 2006 General Fund aid for TEEOSA would have been approximately $13 million higher.