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PREPARED BY: Sandy Sostad
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PHONE: 471-0054

LB 235

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2011-12		FY 2012-13	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	(\$140,888,317)		(\$172,837,893)	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	(\$140,888,317)		(\$172,837,893)	

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

LB 235 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA). The following narrative describes the changes made in the act. A cumulative fiscal impact is estimated for all of the changes and is shown at the end of the fiscal note.

CHANGES TO NEEDS IN THE TEEOSA FORMULA:

Base Limitation/Cost Growth Factor: The base limitation rate or basic allowable growth rate in the aid formula is decreased from 1.5% to .5% for FY2011-12 and FY2012-13. The 1% decrease in the rate decreases the cost growth factor in the formula which is used to inflate school district expenditures for purposes of calculating aid. The cost growth factor is also adjusted to eliminate an additional factor which is currently added to the basic allowable growth rate for the aid year plus the basic allowable growth rate for the prior aid year. The 1% factor is eliminated. (Note that the factor is normally 1% but it has been changed to 1.5% for aid distributed in FY2011-12 and FY2012-13). These changes result in a calculated cost growth factor of .75% for FY12 and .5% for FY13. The decrease in the cost growth factor decreases the amount of state aid that is provided as basic funding.

Averaging Adjustment: The averaging adjustment increases need for districts whose basic funding per student is less than the averaging adjustment threshold. The bill decreases the averaging adjustment threshold by 5% in FY12. It also permanently eliminates an additional .5% that is added to increase the threshold in the calculation each year. The reduction in the threshold used to compute the averaging adjustment reduces state aid for districts receiving the averaging adjustment.

Needs Stabilization*: LB 235 changes the calculation of needs stabilization in FY2011-12. The bill reduces the lower and upper limits for the needs stabilization by 5%. Currently, the amount of need is stabilized at the prior year's level, if need is calculated to be less than the prior year. The bill provides that needs will be stabilized at 95% of the prior year's amount if needs for a district are calculated to be less than 95% of the prior year.

The upper limit on needs stabilization is also adjusted in FY12. Currently, if calculated needs for a district are greater than 112% of the prior year, then needs are adjusted to 112%. The stabilization limit is changed to 107% by the bill. Districts receiving a student growth adjustment are excluded from the reduction. The change in needs stabilization reduces state aid for districts that are eligible for stabilization aid.

Elementary Class Size Allowance: The bill repeals language which eliminates the elementary class size allowance beginning in FY2013-14. Generally, allowances attribute expenditures for such purposes to school districts incurring the expenditures which reduces the amount of basic funding available in the formula. In FY11, the elementary class size allowance was \$105.4 million of the needs calculation.

The retention of the allowance should not increase or decrease the overall amount of state aid distributed, unless the interaction with the averaging adjustment or needs stabilization changes the amount, but it will alter the amount of aid received by individual districts.

Comparison Groups: The calculation of basic funding for districts is changed in the bill. Currently, basic funding for a district is determined by comparing the formula students of the five larger and five smaller districts to a district. The highest and lowest spending districts are excluded from the calculation. The comparison group is changed beginning in FY2011-12 to be the ten larger and ten smaller districts, with the two highest and two lowest spending districts excluded from the comparison group.

The fiscal impact of the change in comparison groups is unknown, but not anticipated to be significant in terms of overall state aid. However, the change of the comparison group for an individual district may increase or decrease state aid for that district.

CHANGES TO RESOURCES IN THE TEEOSA FORMULA:

Local Effort Rate: The local effort rate is increased from \$1.00 to \$1.025 for the calculation of aid in FY12 and FY13. An increase in the local effort rate decreases the amount of state aid provided to school districts by the amount of additional resources that can be raised from the increased rate.

Property Tax Refunds: Formula resources for a school district are reduced by the amount of property tax refunds paid by a district beginning in FY13. The adjustment decreases resources for a district which will increase state aid for most affected districts by the amount of the refunds.

Income Tax: The bill continues a reduction in the amount of income tax rebate in FY12 and FY13. The amount of income tax rebate is reduced by \$21 million in each fiscal year. The reduction in FY11 is \$20 million. A reduction in income tax rebate decreases resources to schools and state aid by \$21 million but the aid reduction is restored as equalization aid to equalized districts.

CHANGES TO BUDGET LIMITATIONS: Beginning in FY2011-12, the bill modifies the budget limitation for school districts. The general fund budget of expenditures (less special grant funds and special education expenditures) is limited to the greater of: the prior year's general fund budget (less grant funds and special education expenditures) increased by the basic allowable growth rate; or, 110% of formula need (less special education expenditures) increased by the basic allowable growth rate for the aid year.

Under current law, in FY11, the budget limit is the maximum of the prior year budget (less grant funds and special education expenditures) increased by .0075% plus the applicable allowable growth rate; or, 116.5% of formula need (less special education expenditures) increased by the basis allowable growth rate.

The bill also eliminates the allowable growth range for districts which is currently up to 3% above the base limitation. This will impact budget based budget districts.

The amount of unused budget authority which may be accessed by school districts is also changed. Currently, unused budget authority is carried over to the ensuing fiscal year. The bill limits the annual carryover to an amount equal to the basic allowable growth rate for the aid year times the general fund budget of expenditures (less grant funds and special education expenditures). New exceptions included in the bill will be increases attributed to expenditures for significant events not occurring regularly in a school year that are approved by the State Board of Education. The total amount accessed is limited to the smaller of: twice the additional amount calculated by multiplying the basic allowable growth rate times the general budget of expenditures (less grant funds and special education expenditures) or the amount of total unused budget authority determined by the department.

It is assumed the changes in budget authority will have an impact in terms of reducing the annual increase in school spending. Any change in school spending impacts state aid paid two years later. The budget limit changes will impact state aid beginning in FY2013-14. However, the fiscal impact of the changes is unknown and is not included in the calculation of the fiscal impact of this bill.

FISCAL IMPACT: In summary, the fiscal impact of each of the formula changes has not been calculated separately due to the interaction of the components of the formula. Collectively, it is estimated the bill decreases the amount of state aid distributed in FY2011-12 by \$140.9 million and the amount distributed in FY2012-13 by \$172.8 million of general funds. The fiscal impact estimate does not include any reductions in spending or aid due to the budget limit changes included in the bill because these will not be realized until FY2013-14 and are unknown at this time.

	FY2010-11 certified	LB 235 FY2011-12 estimated	FY2012-13 estimated
Total TEEOSA			
Current Law	950,221,736	985,371,200	1,076,062,674
LB 235 Changes		<u>844,482,883</u>	<u>903,224,781</u>
Total Savings		140,888,317	172,837,893
General Funds			
Current Law	796,734,559	971,028,540	1,061,361,447
LB 235 Changes		<u>830,140,223</u>	<u>888,523,554</u>
Total GF Savings		140,888,317	172,837,893

* Technical Note: It is assumed the needs stabilization is not eliminated after FY12 and it reverts back to the pre FY12 language in the calculation of the fiscal impact of this bill.

State Agency OR Political Subdivision Name: NDE/School Finance & Organization Services

Prepared by: Inbody Date Prepared: 1-19-2011 Phone: 1-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

Table with columns for FY 2011-12 and FY 2012-13, and sub-columns for EXPENDITURES and REVENUE. Rows include GENERAL FUNDS, CASH FUNDS, FEDERAL FUNDS, OTHER FUNDS, and TOTAL FUNDS.

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

This bill makes adjustments to the Tax Equity and Educational Opportunities Support Act (TEEOSA state aid to schools). The bill deletes obsolete language referring to school fiscal years prior to 2010/11 and harmonizes the language in statute. The bill also contains the Emergency Clause.

MAJOR OBJECTS OF EXPENDITURES

Personal Services:

Table with columns for POSITION TITLE, NUMBER OF POSITIONS (11-12, 12-13), and EXPENDITURES (2011-12, 2012-13). Rows include Benefit, Operating, Travel, Capital outlay, Aid, Capital improvements, and TOTAL.

The adjustments to the calculation of TEEOSA state aid to schools for the 2011/12 and 2012/13 school fiscal years includes the following:

- The cost growth factor will be reduced to .0075 (.75%). Current statute calculates the 2011/12 cost growth factor at 2.8% and the 2012/13 cost growth factor at 3.6%
- The amount available for the income tax rebate and net option funding will be decreased by \$21 million. The current amount of reduction for the income tax rebate and net option funding is \$20 million.
- The array of schools for calculating Basic Funding would increase to the 10 larger districts and 10 smaller districts closest to the size of a district. The current array is the 5 larger and 5 smaller districts.
- The calculation for needs stabilization would apply to any school district whose current year's formula needs are less than 95% of the prior year's formula needs. Current statute is 100% of the prior year's formula needs.
- For any school district whose current year's formula needs are greater than 107% of the prior year's formula needs, their formula needs would be reduced to the 107% level. Current statute is 112% of the prior year's needs.
- The averaging adjustment threshold (used to calculate the averaging adjustment component) would be reduced by 5%.
- The Local Effort Rate (LER) would be \$1.025. The current LER is \$1.00.
- Local system resources will be reduced by any property tax refunds paid by the school district.
- The Basic Allowable Growth Rate (BAGR) would be .50%. The current statute provides for a 1.5% BAGR.
- The calculation of certified budget authority will change to reduce growth in budgets.

No fiscal impact to NDE.

There will be a reduction in the amount of monies required to fund TEEOSA state aid to schools. As NDE has not done any models the total amount of TEESOSA aid to be paid to school districts with these changes in unknown at this time. Therefore the amount of reduced state aid from the current year is also unknown.