LEGISLATIVE BILL 149
Passed over the Governor's veto
March 22, 1999.

Introduced by Education Committee: Bohlke, 33, Chairperson; Brashear, 4; Coordsen, 32; Price, 26; Raikes, 25; Stuhr, 24; Suttle, 10; Wickersham, 49; Vrtiska, 1

AN ACT relating to the Tax Equity and Educational Opportunities Support Act; to amend sections 79-1001, 79-1003, 79-1005.01, 79-1007.02, 79-1008.01, 79-1010, 79-1015.01, 79-1018.01, 79-1022, 79-1026, 79-1027, 79-1028, 79-1031, 79-1031.01, 79-1083.02, 79-1083.03, and 79-1089, Revised Statutes Supplement, 1998; to provide for recalculation and recertification of state aid; to redefine terms; to change and eliminate provisions relating to allocated income tax funds, local effort rate, data reporting, and appropriations; to change dates; to harmonize provisions; to repeal the original sections; and to declare an emergency.

Be it enacted by the people of the State of Nebraska,

Section 1. Section 79-1001, Revised Statutes Supplement, 1998, is amended to read:

79-1001. Sections 79-1001 to 79-1033 and section 2 of this act shall be known and may be cited as the Tax Equity and Educational Opportunities Support Act.

Sec. 2. Notwithstanding any other provision of law, the December 1, 1998, certification of state aid pursuant to section 79-1022 to be paid to school districts during school year 1999-00 and the December 1, 1998, certifications pursuant to sections 79-1026, 79-1027, and 79-1083.03 are null and void. State aid to be paid during such school year and the certifications pursuant to sections 79-1026, 79-1027, and 79-1083.03 shall be recertified on or before April 1, 1999. For the final calculation of state aid for school year 1998-99 pursuant to section 79-1065, no district shall receive less than its final calculation of state aid for the 1998-99 school year pursuant to such section as of December 1, 1998.

Sec. 3. Section 79-1003, Revised Statutes Supplement, 1998, is amended to read:

79-1003. For purposes of the Tax Equity and Educational Opportunities Support Act:

(1) Adjusted general fund operating expenditures means general fund operating expenditures as calculated pursuant to subdivision (21) of this section minus the transportation allowance and, for purposes of state aid paid in school fiscal year 1998-99 and each school fiscal year thereafter, minus the special education allowance;

(2) Adjusted valuation means the assessed valuation of taxable property of each district in the state, for school fiscal years before school fiscal year 1998-99, and of each local system in the state, for school fiscal year 1998-99 and each school fiscal year thereafter, adjusted pursuant to the adjustment factors described in section 79-1016. Adjusted valuation means the assessed valuation for the property tax year ending during the school fiscal year immediately preceding the school fiscal year in which the aid based upon that value is to be paid. For purposes of determining the local effort rate yield pursuant to section 79-1015.01, adjusted valuation does not include the value of any property which a court, by a final judgment from which no appeal is taken, has declared to be nontaxable or exempt from taxation;

(3) Allocated income tax funds means the amount of assistance paid to a local system pursuant to section 79-1005.01 as adjusted by the minimum levy adjustment pursuant to section 79-1008.02;

(4) Average daily attendance of a student who resides on Indian land means average daily attendance of a student who resides on Indian land from the most recent data available on November 1 preceding the school fiscal year in which aid is to be paid;

(5) Average daily membership means the average daily membership for grades kindergarten through twelve attributable to the district for school fiscal years before school fiscal year 1998-99, and for school fiscal year 1998-99 and each school fiscal year thereafter, attributable to the local system, as provided in each district's annual statistical summary and includes the proportionate share of students enrolled in a public school instructional program on less than a full-time basis;

(6) Base fiscal year means (a) for school district reorganizations which occurred during the 1995-96 school fiscal year or the 1996-97 school
fiscal year, the second school fiscal year following the school fiscal year in which the reorganization occurred or (b) for school district reorganizations or unifications which occur during or after the 1997-98 school fiscal year, the first school fiscal year following the school fiscal year in which the reorganization or unification occurred;

(7) Board means the school board of each school district;

(8) Categorical funds means funds limited to a specific purpose by federal or state law, including, but not limited to, Title I funds, Title VI funds, federal vocational education funds, federal school lunch funds, Indian education funds, Head Start funds, funds from the Education Innovation Fund, and funds from the School Technology Fund;

(9) Consolidate means to voluntarily reduce the number of school districts providing education to a grade group and does not include dissolution pursuant to section 79-498;

(10) Department means the State Department of Education;

(11) District means any Class I, II, III, IV, V, or VI school district;

(12) Ensuing school fiscal year means the school fiscal year following the current school fiscal year;

(13) Equalization aid means the amount of assistance calculated to be paid to a local system pursuant to sections 79-1008.01 to 79-1022;

(14) Fall membership means the total membership in kindergarten through grade twelve attributable to the district for school fiscal years before school fiscal year 1998-99 and for school fiscal year 1998-99 and each school fiscal year thereafter, attributable to the local system, as reported on the fall school district membership reports for each district pursuant to section 79-528;

(15) Fiscal year means the state fiscal year which is the period from July 1 to the following June 30;

(16) Formula students means (a) for state aid certified pursuant to section 79-1022, the sum of fall membership from the school fiscal year immediately preceding the school fiscal year in which the aid is to be paid, multiplied by the average ratio of average daily membership to fall membership for the second school fiscal year immediately preceding the school fiscal year in which aid is to be paid and the prior two school fiscal years, and tuitioned students from the school fiscal year immediately preceding the school fiscal year in which the aid is to be paid and (b) for final calculation of state aid pursuant to section 79-1065, the sum of average daily membership and tuitioned students from the school fiscal year immediately preceding the school fiscal year in which the aid is paid;

(17) Free lunch and free milk student means a student who qualified for free lunches or free milk from the most recent data available on November 1 of the school fiscal year immediately preceding the school fiscal year in which aid is to be paid;

(18) Full-day kindergarten means kindergarten offered by a district for at least one thousand thirty-two instructional hours;

(19) General fund budget of expenditures means the total budgeted expenditures for general fund purposes as certified in the budget statement adopted pursuant to the Nebraska Budget Act, except that for purposes of the limitation imposed in section 79-1023, and the calculation of Class I total allowable general fund budget of expenditures minus the special education budget of expenditures pursuant to section 79-1083.03, and the calculation pursuant to subdivision (2) of section 79-1027.01, the general fund budget of expenditures does not include any special grant funds, exclusive of local matching funds, received by a district subject to the approval of the department;

(20) General fund expenditures means all expenditures from the general fund;

(21) General fund operating expenditures means the total general fund expenditures minus categorical funds, tuition paid, transportation fees paid to other districts, adult education, summer school, community services, and transfers from other funds into the general fund—For state aid certified pursuant to section 79-1022 and budget limitations certified pursuant to section 79-1026 for school fiscal year 1998-99 and each school fiscal year thereafter, general fund operating expenditures shall equal the general fund operating expenditures from the most recently available complete data year, adjusted by the average annual change in each district's general fund operating expenditures for the most recently available complete data year and the two school fiscal years immediately preceding the most recently available complete data year. For final calculation of state aid pursuant to section 79-1065, general fund operating expenditures shall be as reported in the
annual financial reports from the most recently available complete date year for the second school fiscal year immediately preceding the school fiscal year in which aid is to be paid:

(22) Income tax liability means the amount of the reported income tax liability for resident individuals pursuant to the Nebraska Revenue Act of 1967 less all nonrefundable credits earned and refunds made;

(23) Income tax receipts means the amount of income tax collected pursuant to the Nebraska Revenue Act of 1967 less all nonrefundable credits earned and refunds made;

(24) High school district means a school district providing instruction in at least grades nine through twelve;

(25) Limited English proficiency student means a student with limited English proficiency from the most recent data available on November 1 of the school fiscal year preceding the school fiscal year in which aid is to be paid;

(26) Local system means a Class VI district and the associated Class I districts or a Class II, III, IV, or V district and any affiliated Class I districts or portions of Class I districts. The membership, expenditures, and resources of Class I districts that are affiliated with multiple high school districts will be attributed to local systems based on the percent of the Class I valuation that is affiliated with each high school district;

(27) Low-income child means a child under nineteen years of age living in a household having an annual adjusted gross income of fifteen thousand dollars or less for the second calendar year preceding the beginning of the school fiscal year for which aid is being calculated;

(28) Most recently available complete data year means the most recent single school fiscal year for which the annual financial report, fall school district membership report, annual statistical summary, Nebraska income tax liability by school district for the calendar year in which the majority of the school fiscal year falls, and adjusted valuation data are available;

(29) Regular route transportation means the transportation of students on regularly scheduled daily routes to and from the attendance center;

(30) Reorganized district means any district involved in a consolidation and currently educating students following consolidation;

(31) School year or school fiscal year means the fiscal year of a school district as defined in section 79-1091;

(32) Special education means specially designed kindergarten through grade twelve instruction pursuant to section 79-1125, and includes special education transportation;

(33) Special education allowance means the amount of special education, state, and accelerated or differentiated curriculum program receipts included in local system formula resources under subdivisions (7), (8), (16), and (17) of section 79-1018.01; . For state aid certified pursuant to section 79-1022, the special education allowance shall be adjusted by the average annual change in each district's special education allowance for the most recently available complete date year and the two school fiscal years immediately preceding the most recently available complete date year; for the final calculation of state aid pursuant to section 79-1065, the special education allowance shall be as reported in the annual financial reports from the most recently available complete date year;

(34) Special grant funds means the budgeted receipts for grants, including, but not limited to, Title I funds, Title VI funds, funds from the Education Innovation Fund, interfund loans, insurance settlements, and reimbursements to county government for previous overpayment, that have been approved by the state board;

(35) State aid means the amount of assistance paid to a district pursuant to the Tax Equity and Educational Opportunities Support Act;

(36) State board means the State Board of Education;

(37) State support means all funds provided to districts by the State of Nebraska for the general fund support of elementary and secondary education;

(38) (4) Transportation allowance means the lesser of (4) the (a) for state aid calculated for school fiscal year 1998-99, each district's, and for state aid calculated for school fiscal year 1999-00 and each school fiscal year thereafter, each local system's general fund expenditures for regular route transportation and in lieu of transportation expenditures pursuant to section 79-611 in the most recently available complete date year the second school fiscal year immediately preceding the school fiscal year in which aid is to be paid, but not including special education transportation expenditures or other expenditures previously excluded from general fund operating expenditures, except that for state aid certified pursuant to section 79-1022.
and budget limitations certified pursuant to section 79-1026, the general fund operating expenditures for regular route transportation and in lieu of transportation expenditures shall equal such expenditures from the most recently available complete data year, adjusted by the average annual change in each district's such expenditures for the most recently available complete data year and the two school years immediately preceding the most recently available complete data year or (+++) or (b) for state aid calculated for school fiscal year 1998-99: for each district, and for state aid calculated for school fiscal year 1999-00 and each school fiscal year thereafter for each local system, the number of miles traveled in the most recently available complete data year the second school fiscal year immediately preceding the school fiscal year in which aid is to be paid by vehicles owned, leased, or contracted by the district or the districts in the local system for the purpose of regular route transportation multiplied by four hundred percent of the mileage rate established by the Department of Administrative Services pursuant to section 81-1176 as of January 1 of the most recently available complete data year added to in lieu of transportation expenditures pursuant to section 79-611 from the same data year; and, for state aid certified pursuant to section 79-1022 and budget limitations certified pursuant to section 79-1026, the in lieu of transportation expenditures for this subdivision shall equal such expenditures from the most recently available complete data year, adjusted by the average annual change in each district's such expenditures for the most recently available complete data year and the two school fiscal years immediately preceding the most recently available complete data year.

(b) For the final calculation of state aid pursuant to section 79-1065, the transportation allowance shall be the lesser of (i) the general fund expenditures for regular route transportation and in lieu of transportation expenditures pursuant to section 79-611 as reported in the annual financial reports from the most recently available complete data year, but not including special education transportation expenditures or other expenditures previously excluded from general fund operating expenditures, or (++) the number of miles traveled in the most recently available complete data year by vehicles owned, leased, or contracted by the district for the purpose of regular route transportation multiplied by four hundred percent of the mileage rate established by the Department of Administrative Services pursuant to section 81-1176 as of January 1 of the most recently available complete data year added to in lieu of transportation expenditures pursuant to section 79-611 from the same data year; and

(39) Tuitioned students means students in kindergarten through grade twelve of the district whose tuition is paid by the district to some other district or education agency.

Sec. 4. Section 79-1005.01, Revised Statutes Supplement, 1998, is amended to read:

79-1005.01. For state aid calculated for school fiscal year 1998-99 and each school fiscal year thereafter:

(1) Of the funds dedicated to the use and support of public education, an amount equal to the amount appropriated to the School District Income Tax Fund for distribution in school fiscal year 1992-93 shall be disbursed as option payments as determined under section 79-1009 and as allocated income tax funds as determined in this section and sections 79-1008.01, 79-1015.01, 79-1017.01, and 79-1018.01, except as provided in section 79-1008.02. Funds not distributed as allocated income tax funds due to minimum levy adjustments shall be distributed as equalization aid and not increase the amount available to local systems for distribution as allocated income tax funds;

(2) Not later than November 15 of each year, the Tax Commissioner shall certify to the department for the preceding tax year the income tax liability of resident individuals for each local system. The 1996 income tax liability of resident individuals of Class I districts that are affiliated with multiple high school districts shall be divided between local systems on the percentage of the Class I district's valuation affiliated with each high school district; and

(3) Using the data certified by the Tax Commissioner pursuant to subdivision (2) of this section, the department shall calculate the allocation percentage and each local system's allocated income tax funds. The allocation percentage shall be an amount equal to the amount appropriated to the School District Income Tax Fund for distribution in school fiscal year 1992-93 minus the total amount paid for option students pursuant to section 79-1009 with the difference divided by the aggregate statewide income tax liability of all resident individuals certified pursuant to subdivision (2) of this section. Each local system's allocated income tax funds shall be calculated by
multiplying the allocation percentage times the local system’s income tax liability certified pursuant to subdivision (2) of this section.

Sec. 5. Section 79-1007.02, Revised Statutes Supplement, 1998, is amended to read:

79-1007.02. For state aid calculated for school fiscal year 1998-99 and each school fiscal year thereafter:

(1) Using data from the annual financial reports for the most recently available complete data year, the second school fiscal year immediately preceding the school fiscal year in which aid is to be paid, the annual statistical summary reports for the school fiscal year immediately preceding the school fiscal year in which aid is to be paid, the fall membership reports and supplements thereto for the school fiscal year immediately preceding the school fiscal year in which aid is to be paid, and the school district census as reported under sections 79-524 and 79-578 for the second school fiscal year preceding the school fiscal year in which aid is to be paid, the department shall divide the local systems into three cost groupings prior to the certification of state aid based upon the following criteria:

(a) The very sparse cost grouping will consist of local systems that have (i)(A) less than one-half student per square mile in the county in which the high school attendance center is located, based on the school district census, (B) less than one formula student per square mile in the local system, and (C) more than fifteen miles between the high school attendance center and the next closest high school attendance center on paved roads; or (ii)(A) more than four hundred fifty square miles in the local system, (B) less than one-half student per square mile in the local system, and (C) more than fifteen miles between the high school attendance center and the next closest high school attendance center on paved roads;

(b) The sparse cost grouping will consist of local systems that do not qualify for the very sparse cost grouping but which meet the following criteria:

(i)(A) Less than two students per square mile in the county in which the high school is located, based on the school district census, (B) less than one formula student per square mile in the local system, and (C) more than ten miles between the high school attendance center and the next closest high school attendance center on paved roads; or

(ii) (A) Less than one and one-half formula students per square mile in the local system and (B) more than fifteen miles between the high school attendance center and the next closest high school attendance center on paved roads; or

(iii) The local system includes ninety-five percent or more of a county; and

(c) The standard cost grouping will consist of local systems that do not qualify for the very sparse or the sparse cost groupings.

For purposes of subdivision (1) of this section, if a local system did not operate and offer instruction in grades nine through twelve within the boundaries of the local system during the school fiscal year immediately preceding the school fiscal year in which aid is to be paid, the local system shall not be considered to have a high school attendance center;

(2) The department shall calculate the average formula cost per student in each cost grouping by dividing the total estimated general fund operating expenditures for the cost grouping by the total adjusted formula students for all local systems in the cost grouping. For purposes of this subdivision shall take into account the requirements of subsection (2) of section 79-1007.01. The total estimated general fund operating expenditures for the cost grouping is equal to the total adjusted general fund operating expenditures for all local systems in the cost grouping multiplied by a cost growth factor. The cost growth factor for each cost grouping is equal to the sum of: (a) One; plus (b) the product of two times the ratio of the difference between the formula students attributable to the cost grouping without weighting or adjustment pursuant to section 79-1007.01 and the average daily membership attributable to the cost grouping divided by the average daily membership attributable to the cost grouping for the most recently available complete data year divided by the average daily membership attributable to the cost grouping for the most recently available complete data year, except that the ratio shall not be less than zero; plus (c) the basic allowable growth rate pursuant to section 79-1025 for the school fiscal year in which the aid is to be paid; plus (d) the basic allowable growth rate pursuant to section 79-1025 for the school fiscal year immediately preceding the school fiscal year immediately preceding the school fiscal year in which aid is to be paid, and the school district census as reported under sections 79-524 and 79-578 for the second school fiscal year preceding the school fiscal year in which aid is to be paid, the fall membership reports and supplements thereto for the school fiscal year immediately preceding the school fiscal year in which aid is to be paid, and the school fiscal year in which aid is to be paid.
fiscal year in which the aid is to be distributed; plus (e) one-half of any additional growth rate allowed by special action of school boards for the school fiscal year in which aid is to be distributed as determined on or before December 1 of the school fiscal year immediately preceding the school fiscal year when aid is to be distributed; plus (f) one-half of any additional growth rate allowed by special action of the school boards for the school fiscal year immediately preceding the school fiscal year when aid is to be distributed; and

(3) Each local system's formula need will be equal to the local system's transportation allowance plus the local system's special education allowance plus the product of the local system's adjusted formula students multiplied by the average formula cost per student in the local system's cost grouping. The calculation of total adjusted formula students for purposes of this subdivision shall take into account the requirements of subsection (2) of section 79-1007.01.

Sec. 6. Section 79-1008.01, Revised Statutes Supplement, 1998, is amended to read:

79-1008.01. (1) Except as provided in subsection (2) of this section and sections 79-1008.02 to 79-1010, each local system shall receive equalization aid in the amount that the total formula need of each local system, as determined pursuant to sections 79-1007.01 and 79-1007.02, exceeds its total formula resources as determined pursuant to sections 79-1015.01 to 79-1017.01 and 79-1018.01.

(2) Except as provided in section 79-1008.02, a local system shall not receive state aid for any school fiscal year which is less than an amount equal to the difference of eighty-five percent of the amount of aid certified in the preceding school fiscal year minus an amount equal to any increase in the adjusted valuation between the adjusted valuation used for the certification of aid in the preceding school fiscal year and the adjusted valuation used for the aid being calculated multiplied by the maximum levy pursuant to subdivision (2)(a) of section 77-3442 without a vote pursuant to section 77-3444.

(3) Except as provided in subsection (2) of this section, no local system may receive equalization aid such that, when total aid is added to a levy of one dollar for state aid to be distributed in school fiscal years 1998-99 and 1999-00 or of ninety cents for state aid to be distributed in school fiscal year 2000-01 and each school fiscal year thereafter, multiplied by the local system's adjusted valuation divided by one hundred, would result in total local system revenue from state aid plus property tax receipts which exceeds the total of:

(a) State aid plus property tax receipts received by the local system during the preceding school fiscal year multiplied by the total of (i) 1.01 plus (ii) the applicable allowable growth rate for the local system calculated pursuant to section 79-1026 as determined on or before December 1 of the school fiscal year immediately preceding the school fiscal year when aid is to be distributed plus (iii) the percentage growth in formula students from the certification of state aid for the immediately preceding school fiscal year to the formula students for the certification of state aid for the current school fiscal year, except that the percentage growth shall not be less than zero;

(b) Unused budget authority authorized pursuant to section 79-1030;

(c) The difference between the other actual receipts included in local system formula resources for the certification of state aid in the preceding school fiscal year and other actual receipts included in local system formula resources for the certification of state aid for the current school fiscal year, except that such difference shall not be less than zero; and

(d) The absolute value of any negative prior year adjustment pursuant to section 79-1065.

For local systems that have reorganized, state aid, property tax receipts, and number of formula students shall be attributed based on valuation. The revenue from property tax receipts shall be calculated by multiplying the reported general fund common levy by the assessed valuation subject to the levy divided by one hundred.

(4) The aid that is not distributed through equalization based on subsection (3) of this section shall be distributed through this subsection. Local systems qualify for distribution under this subsection if they have nine hundred or less formula students and adjusted general fund operating expenditures per formula student less than the average for all local systems with nine hundred or less formula students. The aid shall be distributed proportionally among the qualifying districts based on the dollar amount each local system's calculated state aid plus the product of a levy of one dollar and ten
cents for school fiscal years 1998-99 and 1999-00 and of one dollar for school fiscal year 2000-01 and each school fiscal year thereafter multiplied by the assessed valuation divided by one hundred is below ninety percent of state aid plus property tax receipts received by the local system during the preceding school fiscal year. No system shall receive aid pursuant to this subsection such that the calculated state aid plus the product of a levy of one dollar and ten cents for school fiscal years 1998-99 and 1999-00 and of one dollar for school fiscal year 2000-01 and each school fiscal year thereafter multiplied by the assessed valuation divided by one hundred is ninety percent or more of state aid plus property tax receipts received by the local system during the preceding school fiscal year. Any aid available for distribution pursuant to this subsection that is not distributed pursuant to this subsection shall be distributed as equalization aid.

Sec. 7. Section 79-1010, Revised Statutes Supplement, 1998, is amended to read:

79-1010. (1) To encourage consolidation and unification of school districts, incentives shall be paid to reorganized districts or unified systems in certain size ranges for a three-year period to reward the reorganized districts or unified systems for their efforts to increase efficiency in the delivery of educational services. This section shall only apply to consolidations and unifications with an effective date after May 31, 1996, and before August 2, 2001.

(2) To qualify for incentive payments under this section, the consolidation or unification must be approved for incentive payments by the State Committee for the Reorganization of School Districts. For consolidations, when reviewing a petition for the boundary change pursuant to section 79-413, the state committee shall issue a preliminary approval or disapproval for incentive payments along with a notice specifying application procedures. For consolidations, affected school districts shall file an application for incentive payments with the state committee within thirty days following the issuance of the boundary change order pursuant to subsection (1) of section 79-479. For unifications, the unified system or participating districts shall file an application for incentive payments with the state committee either following approval of the application for unification or in conjunction with the application for unification. The state committee shall, within thirty days, approve or disapprove incentive payments. For consolidations, if there are no material changes in the reorganization plan between a preliminary approval and application for incentive payments following the boundary change order, the state committee shall approve the incentive payments. If a preliminary disapproval was issued or if there was a material change in the reorganization plan prior to the issuance of the boundary change order, the state committee shall reconsider the approval or disapproval of incentive payments. The state committee shall make the determination regarding whether or not any changes in a reorganization plan are material for the purpose of approving or disapproving incentive payments.

(3) For incentive payments to be approved for either consolidations or unifications by the state committee, a reorganization study, including efficiency, demographic, curriculum, facility, financial, and community components, must be completed. If a study containing such elements is completed and the reorganization plan or unification agreement will most likely result in more efficiency in the delivery of educational services or greater educational opportunities, the state committee may approve incentive payments for the affected districts.

(4) Incentive payments shall be based on the number of students moving from one size range to a lower cost size range based on the average daily membership in each affected district in the school fiscal year immediately preceding the first school fiscal year the boundary change or unification is in effect and the average daily membership the consolidated district or unified system would have had following the boundary change or unification if it had occurred in the school fiscal year immediately preceding the first school fiscal year the boundary change or unification is in effect. The reorganized school districts or unified systems existing after the qualified boundary change or unification shall receive incentive payments based on the following criteria for each student meeting the criteria:

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<thead>
<tr>
<th>Average daily membership range before consolidation</th>
<th>Average daily incentive payment per student who moves from the school fiscal year average daily membership range before consolidation</th>
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<tbody>
<tr>
<td>Grades one through six, including full-day kindergarten</td>
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For grades seven and eight:

<table>
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<tr>
<th>Average daily membership range</th>
<th>Average daily membership range with boundary change or unification</th>
<th>Incentive payment per student who moves from the consolidation or unification average daily membership range before consolidation or unification to the average daily membership range with boundary change or unification</th>
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For grades nine through twelve:

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<th>Average daily membership range</th>
<th>Average daily membership range with boundary change or unification</th>
<th>Incentive payment per student who moves from the consolidation or unification average daily membership range before consolidation or unification to the average daily membership range with boundary change or unification</th>
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additional incentives shall be calculated by the department and added to the districts are added to the unified system or are added in a consolidation, the amount calculated pursuant to subsection (4) of this section. If additional this section and in the fourth year, the district will receive the difference between the incentive payments received and three hundred percent of the fiscal year, the payments for the remainder of the first three years will be if a consolidated district is still receiving incentive payments for a unification in the base subsection (4) of this section in the base fiscal year. If a consolidated system consolidates and the boundary change takes effect the incentive payments received for that school fiscal year exceeds the balance of the Reorganized School Assistance Fund for the 1998-99 school fiscal year and from the two million dollars set aside from the Tax Equity and Educational Opportunities Fund for the certification of state aid pursuant to this subsection after July 1, 2002.

The incentive payments shall not be included in local system formula resources School Assistance Fund or the two million dollars, whichever is applicable. No incentive payments shall be made as calculated under section 79-1018.01. No incentive payments shall be made pursuant to subsection (4) of this section shall be included in the distribution of state aid for the first three school fiscal years following the base fiscal year if payments were made in the base fiscal year pursuant to subsection (5) of this section. For unifications, one hundred percent of the amount calculated pursuant to subsection (4) of this section shall be included in the distribution of state aid for the first school fiscal year beginning with the base fiscal year, seventy-five percent for the second school fiscal year beginning with the base fiscal year, and fifty percent for the third school fiscal year beginning with the base fiscal year. If a unified system consolidates and the boundary change takes effect before August 2, 2001, the consolidated district will be eligible to receive seventy-five percent of the amount originally calculated pursuant to subsection (4) of this section in the base fiscal year. If a consolidated district is still receiving incentive payments for a unification in the base fiscal year, the payments for the remainder of the first three years will be at one hundred percent of the amount calculated pursuant to subsection (4) of this section and in the fourth year, the district will receive the difference between the incentive payments received and three hundred percent of the amount calculated pursuant to subsection (4) of this section. If additional districts are added to the unified system or are added in a consolidation, the additional incentives shall be calculated by the department and added to the incentive payments.
If, prior to the beginning of the eighth year of operating as a unified system, the unified system (a) discontinues its status as a unified system and (b) does not consolidate, the districts in the unified system shall pay back the incentives. The total incentives paid to the unified system shall be divided between the districts based on the adjusted valuation of each district in the year prior to the discontinuation of the unified system, and each district’s share shall be paid back through reductions in state aid in equal amounts for five years. If a district withdraws from a unified system prior to the beginning of the eighth year of participating in the unified system, the district shall pay back the incentives attributable to the district’s participation in the unified system through reductions in state aid in equal amounts for five years. The total incentives paid shall include interest calculated from the date of payment until the estimated repayment at the rate specified in section 45-104.02 as of the expiration of the agreement or the effective date of withdrawal. If the state aid is less than the repayment amount in any school fiscal year, the remaining repayment will reduce state aid in future school fiscal years.

If the total amount of incentive payments to school districts for a school year exceeds one percent of the appropriation to the Tax Equity and Educational Opportunities Fund minus two million dollars, the incentive payments shall be reduced proportionately so that the total amount of incentive payments to school districts equals one percent of the appropriation to the Tax Equity and Educational Opportunities Fund. The payments shall not be included in local system formula resources as calculated under section 79-1018.01. No incentive payments shall be made pursuant to this section after July 1, 2004.

Sec. 8. Section 79-1015.01, Revised Statutes Supplement, 1998, is amended to read:

Sec. 9. Section 79-1018.01, Revised Statutes Supplement, 1998, is amended to read:

Local system formula resources include other actual receipts available for the funding of general fund operating expenditures as determined by the department for the most recently available complete data year second school fiscal year immediately preceding the school fiscal year in which aid is to be paid, except that receipts from the Community Improvements Cash Fund and receipts acquired pursuant to the Low-Level Radioactive Waste Disposal Act shall not be included. Other actual receipts include:

1. Public power district sales tax revenue;
2. Fines and license fees;
3. Revenue received from individuals, other districts, or any other source except those derived from adult education;
4. Transportation receipts;
5. Interest on investments;
6. Other miscellaneous noncategorical local receipts, not including receipts from private foundations, individuals, associations, or charitable organizations;
7. Special education receipts, excluding grant funds received pursuant to section 9-812;
8. Special education receipts and non-special education receipts from the state for wards of the court and wards of the state;
9. All receipts from the temporary school fund;
10. Motor vehicle tax receipts received on or after January 1, 1998;
11. Pro rata motor vehicle license fee receipts;
12. Other miscellaneous state receipts excluding revenue from the textbook loan program authorized by section 79-734; and
13. Impact aid entitlements for the school fiscal year which have
actually been received by the district to the extent allowed by federal law;
(14) All other noncategorical federal receipts;
(15) All receipts pursuant to the enrollment option program under sections 79-232 to 79-246;
(16) Receipts under the federal Medicare Catastrophic Coverage Act of 1988 as authorized pursuant to sections 43-2510 and 43-2511 but only to the extent of the amount the local system would have otherwise received pursuant to the Special Education Act.
(17) Receipts for accelerated or differentiated curriculum programs pursuant to sections 79-1106 to 79-1108.03.

For state aid certified pursuant to section 79-1022, other actual receipts shall equal each local system's other actual receipts from the most recently available complete data year, adjusted by the average annual change in each local system's other actual receipts for the most recently available complete data year and the two school fiscal years immediately preceding the most recently available complete data year. For final calculation of state aid pursuant to section 79-1065, other actual receipts shall be as reported in the annual financial reports from the most recently available complete data year.

Sec. 10. Section 79-1022, Revised Statutes Supplement, 1998, is amended to read:
79-1022. (1) On or before December 1 of each year April 1, 1999, and on or before February 1 for each year thereafter, the department shall determine a target budget level for each local system to be distributed pursuant to the Tax Equity and Educational Opportunities Support Act based on estimated funding levels provided by the Legislative Fiscal Analyst and shall certify the amounts to the Director of Administrative Services, the Auditor of Public Accounts, and each district. The Legislative Fiscal Analyst shall provide such estimates no later than November 1 of each year. The amount to be distributed to each district from the amount certified for a local system shall be proportional based on the weighted formula students attributed to each district in the local system. On or before April 1, 1999, and on or before February 1 for each year thereafter, the department shall report the necessary funding level to the Governor, the Appropriations Committee of the Legislature, and the Education Committee of the Legislature.

(2) Except as provided in subsection (7) of section 79-1016, the amounts certified pursuant to subsection (1) of this section shall be distributed in ten as nearly as possible equal payments on the last business day of each month beginning in September of each ensuing school fiscal year and ending in June of the following year. Such certified state aid amounts shall be shown as budgeted non-property-tax receipts and deducted prior to calculating the property tax request in the district's general fund budget statement as provided to the Auditor of Public Accounts pursuant to section 79-1024.

Sec. 11. Section 79-1026, Revised Statutes Supplement, 1998, is amended to read:
79-1026. On or before December 1 of each year April 1, 1999, and on or before February 1 for each year thereafter, the department shall determine and certify to each Class II, III, IV, V, or VI district an applicable allowable growth percentage carried out at least four decimal places for each local system as follows:
(1) For each school fiscal year, the department shall determine a target budget level for each local system by multiplying the adjusted formula students as calculated pursuant to section 79-1007.01 by the cost grouping cost per student as calculated under section 79-1007.02. The sum of such product and the local system's special education allowance and transportation allowance shall be each local system's target budget level;
(2) The department shall establish a target budget level range of general fund operating expenditure levels for each school fiscal year for each local system which shall begin at twenty percent less than the target budget level and end at the target budget level. The beginning point of the range shall be assigned a number equal to the maximum allowable growth rate established in section 79-1025, and the end point of the range shall be assigned a number equal to the basic allowable growth rate as prescribed in such section such that the lower end of the range shall be assigned the maximum allowable growth rate and the higher end of the range shall be assigned the basic allowable growth rate; and
(3) For each school fiscal year, each local system's general fund operating expenditures shall be compared to its target budget level along the range described in subdivision (2) of this section to arrive at an applicable allowable growth rate as follows: If each local system's general fund operating expenditures fall below the lower end of the range, such applicable
allowable growth rate shall be the maximum growth rate identified in section 79-1025. If each local system's general fund operating expenditures are greater than the higher end of the range, the local system's allowable growth rate shall be the basic growth rate identified in such section. If each local system's general fund operating expenditures fall between the lower end and the higher end of the range, the department shall use a linear interpolation calculation between the end points of the range to arrive at the applicable allowable growth rate for the local system.

Sec. 12. Section 79-1027, Revised Statutes Supplement, 1998, is amended to read:

79-1027. No district shall adopt a budget, which includes contingency funds, depreciation funds, and necessary general fund cash reserves, exceeding the applicable allowable reserve percentages of total general fund budget of expenditures as specified in the schedule set forth in this section.

Each district with combined necessary general fund cash reserves, depreciation funds, and contingency funds less than the applicable allowable reserve percentage specified in this section may, notwithstanding the district's applicable allowable growth percentage, increase its necessary general fund cash reserves by an amount which will increase its combined necessary general fund cash reserves, depreciation funds, and contingency funds by two percent of its total general fund budget of expenditures, except that (1) a district shall not increase such necessary general fund cash reserves when such increase will result in total necessary general fund cash reserves, depreciation funds, and contingency funds which exceed the applicable allowable reserve percentage and (2) a district may increase such necessary general fund cash reserves in excess of such two percent limitation due to projected increases in federal funds.

Sec. 13. Section 79-1028, Revised Statutes Supplement, 1998, is amended to read:

79-1028. (1) A Class II, III, IV, V, or VI school district may exceed the local system's allowable growth rate for (a) expenditures in support of a service which is the subject of an interlocal cooperation agreement or a modification of an existing agreement whether operated by one of the parties to the agreement or an independent joint entity, (b) expenditures to pay for repairs to infrastructure damaged by a natural disaster which is declared a disaster emergency pursuant to the Emergency Management Act, (c) expenditures to pay for judgments, except judgments or orders from the Commission of Industrial Relations, obtained against a school district which require or obligate a school district to pay such judgment, to the extent such judgment is not paid by liability insurance coverage of a school district, (d) expenditures to pay for sums agreed to be paid by a school district to certificated employees in exchange for a voluntary termination of employment, or (e) expenditures to pay for lease-purchase contracts approved on or after July 1, 1997, and before July 1, 1998, to the extent the lease payments are not budgeted expenditures for fiscal year 1997-98.

(2) A Class II, III, IV, V, or VI district may exceed its applicable allowable growth rate by a specific dollar amount if the district projects an increase in formula students in the district over the current school year greater than twenty-five students or greater than those listed in the schedule provided in this subsection, whichever is less. Districts shall project increases in formula students on forms prescribed by the department. The state board shall approve, deny, or modify the projected increases.

The department shall compute the district's estimated allowable
budget per pupil using the budgeted general fund expenditures found on the budget statement for the current school year divided by the number of formula students in the current school year and multiplied by the district's applicable allowable growth rate. The resulting allowable budget per pupil shall be multiplied by the projected formula students to arrive at the estimated budget needs for the ensuing year. The department shall allow the district to increase its general fund budget of expenditures for the ensuing school year by an amount necessary to fund the estimated budget needs of the district as computed pursuant to this subsection. On or before July 1, 1998, and on or before December 1, 1998, and each December 1 thereafter April 1, 1999, and on or before February 1 for each year thereafter, the department shall make needed revisions in the applicable allowable growth rate of districts which have been allowed additional growth pursuant to this subsection to reflect the actual formula students of such district and shall certify such revisions to each district.

(3) A Class II, III, IV, V, or VI district may exceed its applicable allowable growth rate by a specific dollar amount if construction, expansion, or alteration of district buildings will cause an increase in building operation and maintenance costs and may allow a Class II, III, IV, V, or VI district to exceed the local system's applicable allowable growth percentage by the amount necessary to fund such increased costs. The department shall compute the actual increased costs for the school year and shall, if needed, modify the local system's applicable allowable growth rate for the ensuing school year.

(4) A Class II, III, IV, V, or VI district may exceed its applicable allowable growth rate by a specific dollar amount if the district demonstrates to the satisfaction of the state board that it will exceed its applicable allowable growth rate as a result of costs pursuant to the Retirement Incentive Plan authorized in section 79-855 or the Staff Development Assistance authorized in section 79-856. The department shall compute the amount by which the increased cost of such program or programs exceeds the district's applicable allowable growth rate and shall allow the district to increase its general fund expenditures by such amount for that fiscal year.

Sec. 14. Section 79-1031, Revised Statutes Supplement, 1998, is amended to read:

79-1031. The department, with assistance from the Property Tax Administrator, the Legislative Fiscal Analyst, and the budget division of the Department of Administrative Services, shall annually, on or before December November 15, provide data an estimate of the necessary funding level for the next school fiscal year under the Tax Equity and Educational Opportunities Support Act to the Governor, the Appropriations Committee of the Legislature, and the Education Committee of the Legislature, to enable the Governor to prepare the necessary legislation to:

(1) Appropriate an amount which will provide financial support from all state sources, including the amounts transferred pursuant to sections 79-947.01 and 79-988.01, sufficient to support the estimated statewide aggregate general fund operating expenditures for Nebraska elementary and secondary public education that cannot be met by local resources for the ensuing school fiscal year;

(2) Except as provided in subdivisions (2)(b) and (c) of this section, appropriate an amount of income tax revenue received to insure that twenty percent of all income tax receipts are dedicated to the support of districts throughout the state;

(b) Appropriate an amount of income tax revenue received to insure that twenty-one and twenty-eight-hundredths percent of all income tax receipts for tax year 1997 are dedicated to the support of districts throughout the state;

(c) Appropriate an amount of income tax revenue received to insure that twenty-one and twenty-five-hundredths percent of all income tax receipts for tax year 1998 are dedicated to the support of districts throughout the state;

(3) Appropriate an amount equal to any state aid funds which have been returned to the General Fund from an earlier appropriation; and

(4) Establish and implement a local system basic allowable growth rate and a local system allowable growth range for Class II; III; IV; V; or VI district budgets for the ensuing school fiscal year.

The Governor shall submit such legislation, along with any modifications made by the Governor as part of his or her annual budget request, to the Legislature.
79-1031.01. It is the intent of the Legislature to ensure sufficient appropriations to the Tax Equity and Educational Opportunities Fund to result in a statewide tax levy that would be less than the maximum tax levy specified in section 77-3442. To carry out the intent of this provision, the Legislative Fiscal Analyst shall calculate an amount which most accurately accounts for the growth in school district budgets. The Appropriations Committee of the Legislature shall annually include such amounts the amount necessary to fund the state aid certified to the primary high school district on or before April 1, 1999, and on or before February 1 for each ensuing school year thereafter in its recommendations to the Legislature to carry out the requirements of this section the Tax Equity and Educational Opportunities Support Act.

Sec. 16. Section 79-1083.02, Revised Statutes Supplement, 1998, is amended to read:

79-1083.02. On or before December 1 of each year February 1 of each year, the State Department of Education shall designate a primary high school district for each Class I school district for the following school fiscal year. The primary high school district shall be the one Class II, III, IV, V, or VI school district or the unified system with which the greatest share of the Class I district’s assessed valuation is affiliated or of which such share is a part for the school fiscal year immediately preceding the school fiscal year in which the primary high school district determination is made. The department shall certify to all school districts and all county clerks the primary high school district for each Class I district.

Sec. 17. Section 79-1083.03, Revised Statutes Supplement, 1998, is amended to read:

79-1083.03. (1)(a) If the primary high school district is a Class VI district, the Class I district’s total allowable general fund budget of expenditures minus the special education budget of expenditures shall be determined by the school board of such Class VI district and shall be certified to the Class I district on or before January 1 of each year April 5, 1999, and on or before March 1 for each year thereafter for the following school fiscal year.

(b) If the primary high school district is a Class VI district, the Class I district’s total allowable general fund budget of expenditures minus the special education budget of expenditures shall be determined by the department as follows and certified on or before April 1, 1999, and on or before April 20 for each school fiscal year thereafter.

(2) If the primary high school district is not a Class VI district, the Class I district’s total allowable general fund budget of expenditures minus the special education budget of expenditures shall be determined by the department as follows and certified on or before December 1 of each year April 5, 1999, and on or before February 1 for each year thereafter for the following school fiscal year:

(a) The total allowable general fund budget of expenditures minus the special education budget of expenditures for the Class I district in the school fiscal year immediately preceding the school fiscal year for which the budget is prepared shall be divided by the formula students in the Class I district as defined in section 79-1003, and the result shall be multiplied by the kindergarten through grade eight formula students as defined in section 79-1003 weighted by the grade weighting factors contained in subsection (1)(a) of section 79-1007.01 to calculate the total allowable general fund budget of expenditures minus the special education budget of expenditures for kindergarten through grade eight in the primary high school district. The total allowable general fund budget of expenditures minus the special education budget of expenditures for kindergarten through grade eight shall be divided by the kindergarten through grade eight formula students without weighting. The result shall be increased by the applicable allowable growth rate for the primary high school district’s local system for the ensuing school fiscal year calculated pursuant to section 79-1026 as determined on or before December 1 of each year, and there after on
or before February 1 of the school fiscal year immediately preceding the school fiscal year for which the budget is prepared; the amounts calculated in subdivisions (2)(a) and (2)(b) of this section shall be summed and the result divided by two to arrive at the total allowable general fund budget of expenditures minus the special education budget of expenditures per formula student for the Class I district; and

(d) The total allowable general fund budget of expenditures minus the special education budget of expenditures per formula student for the Class I district shall be multiplied by the formula students as defined in section 79-1003 for the Class I district as used by the department for certification of the ensuing school fiscal year's state aid, and the result shall be the total allowable general fund budget of expenditures minus the special education budget of expenditures for the Class I district for the ensuing school fiscal year except as provided in subsection (3) of this section.

(3) The school board of the Class I district may, prior to February 1 of each year beginning in 1998 and on or before March 10 for each year thereafter, submit a request to exceed the total allowable general fund budget of expenditures minus the special education budget of expenditures to all the school boards of the high school district or districts with which the Class I district is affiliated or of which it is a part. For Class I districts to exceed the total allowable general fund budget of expenditures minus the special education budget of expenditures, the request shall be approved by high school districts, including the primary high school district, such the Class I districts that are affiliated with or part of the approving high school districts comprise at least two-thirds of the assessed valuation of the Class I district. Such request shall specify the total general fund budget of expenditures for which the Class I district seeks authority. The high school district shall act on the request by March 1, 1999, and on or before April 10 for each year thereafter following the receipt of such request.

(4) For school fiscal year 1998-99 and each school fiscal year thereafter, all Class I districts shall certify the items required by subsection (1) of section 13-508 to all of their high school districts on or before August 1.

(5) All primary high school districts shall certify to the department and all other affected districts, on or before April 10, 1999, and on or before April 20 for each year thereafter, the approved budget authority total general fund budget of expenditures for a Class I district when the Class I district has requested to exceed its certified budget authority and the request has been approved.

Sec. 18. Section 79-1089, Revised Statutes Supplement, 1998, is amended to read:

79-1089. In each school district the school board or board of education shall cause to be examined annually by a public accountant or by a certified public accountant all financial records which are maintained directly or indirectly in the administration and management of public school funds. Rules and regulations governing the scope, extent, pattern, and report of the examination shall be adopted and promulgated by the State Board of Education with the advice and counsel of the Auditor of Public Accounts. A copy of the report shall be filed with the Commissioner of Education and the Auditor of Public Accounts on or before November 15. A copy of the report regarding the examination of a Class I school district shall be filed with the Commissioner of Education and the county superintendent on or before November 15. When any school district fails to comply with this section, the commissioner shall, after notice to the district and an opportunity to be heard, direct that any state aid granted pursuant to the Tax Equity and Educational Opportunities Support Act be withheld until such time as the district has complied with this section. In addition, the commissioner shall notify the county superintendent to direct the county treasurer to withhold all school money belonging to the school district until such time as the commissioner notifies the county superintendent of compliance by the district with this section. The county treasurer shall withhold such money. If the school district does not comply with this section prior to the end of the state's biennium following the biennium which included the fiscal year for which state aid was calculated, the state aid funds shall revert to the General Fund. The amount of any reverted funds shall be included in data provided to the Governor in accordance with section 79-1031.


Sec. 20. Since an emergency exists, this act takes effect when

-15-
passed and approved according to law.