

Revised on 3/24/06 based on amendments adopted through 3/23/06.

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2006-07		FY 2007-08	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$714,150	(\$3,808,000)	\$530,300	
CASH FUNDS	\$2,711,969	\$2,711,969	\$6,368,819	\$2,310,819
FEDERAL FUNDS				
REVOLVING FUNDS	\$78,486		\$78,486	
TOTAL FUNDS	\$3,504,605	(\$1,096,031)	\$6,977,605	\$2,310,819

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

LB 1208 relates to the provision of distance education in the state. The bill requires educational service units (ESU's) to assume responsibility for distance education services that are being provided to member school districts through a distance education consortium on July 1, 2007. The bill has a fiscal impact for the state and political subdivisions based upon the following provisions:

Distance Education Council: A Distance Education Council is created to coordinate distance education in the state. Responsibilities for the Council are outlined in the bill. The Council is composed of one representative from each ESU. It is assumed the Council will be funded with an appropriation provided to the State Department of Education (NDE). It is estimated the Council will need 2.0 FTE (Administrator, Technician) to coordinate distance education at a cost for staff and operating expenses of \$191,400 of general funds in 2006-07 and \$188,300 in 2007-08.

The Council is to facilitate scheduling of distance education courses. There are 336 sites, including schools, ESU's, and higher education institutions which may participate in distance learning. The estimated total cost for software for a scheduling system to include all of the sites is \$1,008,000 of general funds. The estimate is based upon assuming \$3,000 per site less the amount for sites which already have scheduling software. It is assumed software will be installed on a phased-in basis over a three year period. The projected general fund cost is \$492,000 in 2006-07, \$264,000 in 2007-08, and \$252,000 in 2008-09. Estimated annual system maintenance costs will be \$30,750 in 2006-07, \$78,000 in 2007-08 and \$112,700 in 2008-09.

In summary, the total estimated general fund expense for operating and staffing of the Distance Education Council and a scheduling system to coordinate the delivery of distance education courses in the state will be \$714,150 in 2006-07, \$530,300 in 2007-08 and \$559,800 in 2007-08. On-going annual expenses for the Council and system maintenance will be about \$328,300 each year thereafter.

Chief Information Officer: The bill requires the Chief Information Officer (CIO) to bid for equipment and software for school districts, ESU's, community colleges, state colleges and the University of Nebraska to participate in distance learning. The CIO is charged with developing and maintaining a telecommunications network to be called Network Nebraska. All schools, ESU's and public higher education institutions are to have access to the Network no later than July 1, 2012. The CIO is to establish a cost structure based on actual costs plus administrative expenses and shall charge participants according to such cost structure. The CIO is also to apply for reimbursement from the federal Universal Service Fund on behalf of school districts requesting to be included in an aggregate application.

The assumptions on the fiscal note prepared by the CIO appear reasonable with the exception that this fiscal note does not assume funding for the scheduling system will be charged back to the users by the CIO. The CIO estimates the addition of 300 sites to Network Nebraska over a period of four years. There will be a need for additional staff to manage the enlarged network, additional equipment, and increased transport costs. Administrative expenses, transport costs and capital outlay for equipment will be billed to the users of the network.

It is assumed the CIO will contract with the University of Nebraska for internet contracts for Network Nebraska and network management for educational entities. The projected increase in staff for the University is 5.0 FTE at a cost of \$215,000 in 2006-07 and 6.0 FTE at a cost of \$275,000 in 2007-08. The CIO projects the addition of 3.0 FTE for contract and billing management and network management activities. Estimated expenditures for the additional staff are \$137,419 in 2006-07 and 2007-08. Staff costs will be included in the administrative charges assessed users of the network. This fiscal note assumes no additional staff will be added by the Nebraska Educational Telecommunications Commission because the Commission currently has a budget for help desk and support for the scheduling system will not be the responsibility of NETC.

Increased transport expenses to be billed to users are estimated at \$1,176,000 each year. The cost may change depending upon negotiated vendor contracts. Increased costs for equipment for the network includes \$112,000 in 2006-07 and \$256,000 in 2007-08 for distance education circuits from schools to the aggregation point. Increased costs to contract for Internet access are estimated to total \$116,550 in 2006-07 and \$266,400 in 2007-08. The University projects increased expenses for routers, filters, network management and maintenance. Equipment costs for routers and maintenance at regional sites are also projected to increase. Estimated increases for equipment and maintenance total \$680,000 in 2006-07 and \$200,000 in 2007-08.

In summary, the CIO/University estimate an additional 9.0 FTE will be added by 2007-08 to manage and operate the enlarged network. Estimated total increases in personnel expenses are \$352,419 in 2006-07 and \$412,419 in 2007-08. Increased expenses for transport, equipment and internet access are estimated to total \$2,084,550 in 2006-07 and \$1,898,400 in 2007-08. Total billable costs are estimated to be about \$2.44 million in 2006-07 and \$2.31 million in 2007-08. All of these increased costs will be shared by the users of the network in the form of rates assessed for access and use.

State Department of Education: NDE is responsible for the verification of distance education course offerings and distribution of lottery funds for equipment, course incentives and the teacher loan forgiveness program. Rules are to be developed for the distribution of lottery funds. The department is also charged to evaluate Internet-based distance education courses. It is assumed the department has sufficient resources to develop rules and regulations. The lottery program currently has a person assigned on a part-time basis. It is assumed the position will be expanded to full-time and the costs will be paid with lottery funds. The estimated annual fiscal impact is about \$25,000 of cash funds.

State Aid Formula: The bill changes the computation of state aid (TEESOA) for school districts in several ways.

Technology Allowance: A new allowance for distance education and telecommunications is established in the formula. An allowance will not change the overall amount of state aid allocated, but will alter the distribution of aid among school districts. The allowance enables 85% of the expenditures for telecommunications services, access to networks and transmission costs less receipts from the Universal Service Fund to be attributed to the school districts which actually have the expenditures rather than have the expenditures spread out amongst all districts in the cost grouping. The allowance will lower the cost group cost per student in the state aid formula. Schools not having expenditures for distance education will receive less state aid due to the lower cost group cost per student and those having the expenditures should receive additional state aid, if they are equalized.

Network Transport Expenses: It is assumed schools opting to participate in distance education course sharing will have increased transport costs via Network Nebraska. It is projected there will also be increased transport costs related to system technology upgrades as well as the elimination of the impact of the buy-down provision in existing distance education contracts. Increased school district expenditures for transport costs will increase state aid, two years later. The amount of increase is unknown and will depend upon negotiated vendor contracts and school participation.

Accountable Receipts Exceptions: The bill excludes funds received from other school districts for providing distance education courses as an accountable receipt in determining resources in the state aid formula. The amount expended by districts to offer courses is included in the computation of general fund operating expenditures, but the offsetting receipt will not be an accountable resource, so state aid will increase two years later by the amount expended on distance education courses. The amount of increase in state aid is unknown. Currently, expenditures for the majority of the courses are not included in general fund operating expenses for purposes of calculating state aid because expenses are run through interlocal cooperatives or ESU's. The amounts received as incentive aid through the lottery are also not considered to be accountable receipts since lottery funds are not accountable in the formula.

Budget Lid Exclusions: LB 1208 allows schools to exceed allowable growth rates by the amount received from other districts for providing distance education courses. Schools may also exceed the budget lid by amounts expended for consortia expenses pursuant to an interlocal agreement in 2006-07. Most distance education programs are currently operated through interlocal agreements with a consortia or ESU. The exclusions allow the expenses and revenue related to the courses to continue to be outside of the budget lid.

Aid to ESU's – Technology Infrastructure: The bill changes the allocation of aid to ESU's for technology infrastructure. A technology allowance is added to the allocation formula. The allowance will not change the overall amount of technology infrastructure aid allocated, but will alter the distribution of aid among ESU's. The allowance enables ESU's having telecommunications expenditures to receive aid equal to 85% of the expenditures for telecommunications services, access to networks and transmission costs less receipts from the Universal Service Fund and school districts or entities.

Lottery Distribution: The bill changes the allocation of lottery proceeds between the Education Innovation Fund and the Nebraska Scholarship Fund. Currently, each fund receives 22.25% of lottery funds. The bill changes the allocation to 19.75% to the Education Innovation Fund and 24.75% to the Nebraska Scholarship Fund. It is estimated the change will shift about \$540,000 of lottery proceeds from the Education Innovation Fund to the Nebraska Scholarship Fund each fiscal year.

The bill changes the allocation of the Education Innovation Fund beginning in 2006-07. The fiscal impact of the change in 2006-07 is a loss of revenue for the General Fund. Under current law for 2006-07, \$1 million of the fund is allocated for school reorganization incentives and the remainder is to be deposited in the General Fund, after administrative expenses are deducted. The bill eliminates the remittance of funds to the General Fund and allocates funds for the Attracting Excellence to Teaching Program Act (teacher loan forgiveness), school reorganization incentives, administrative expenses, and distance education equipment and incentives. The one-time fiscal impact in terms of lost revenue for the General Fund is \$3,808,000 in 2006-07.

In 2007-08 through 2015-16, all the proceeds of the Education Innovation Fund are to be used for the teacher loan forgiveness program, administration, and distance education equipment and incentives as provided in the bill. After 2015-16, the Legislature is to direct the usage of lottery funds for education purposes.

The bill provides a gradual phase-in of lottery funds for the teacher loan forgiveness program. In the initial year, 2006-07, \$250,000 of lottery funds are transferred to a cash fund for the program. Thereafter, \$500,000 is provided for 2007-08, \$750,000 for 2008-09, and \$1 million for 2009-10 through 2015-16.

The bill provides that lottery proceeds used for distance education equipment and incentives are to be collected beginning in 2006-07 and distributed the following year. Schools and ESU's which access Network Nebraska are eligible for reimbursement for hardware and software purchased for use in distance education. A total of \$20,000 may be provided to each high school or ESU through 2013-14 for equipment purchases. Schools must either send or receive distance education courses each semester for four years to receive the reimbursement. It is estimated the equipment reimbursement will be phased-in over a three year period as schools access Network Nebraska. After available lottery funds are allocated for equipment, the remainder is distributed as incentives. Incentives are provided to districts which send and receive distance education courses based on a formula in the bill.

A total of \$3.53 million of lottery funds are estimated to be distributed for distance education equipment and incentives in 2007-08; \$3.74 million in 2008-09; \$3.49 in 2009-10; and, \$3.24 million in 2010-11 through 2015-16. It is estimated \$3 million will be allocated for equipment reimbursement in 2007-08 and \$533,000 will be available for incentives. In 2008-09, \$1,580,000 is estimated for equipment reimbursement and \$2,161,000 for incentives. In 2009-10, equipment reimbursements are estimated to total \$1,620,000 and incentives \$1,871,000. Thereafter, it is projected that most of the estimated \$3.24 million of lottery proceeds will be used for incentives.

ESU's: The requirement for ESU's to assume responsibility for distance education consortium services on July 1, 2007 will increase the expenditures and revenue of ESU's. All assets and liabilities, including staff, of distance education consortia will transfer to an ESU chosen by the majority of members of the consortia. ESU's will act as fiscal agents for distance education and districts will pay ESU's rather than consortia for distance education services.

Public Postsecondary Education: The bill has the potential to reduce rates charged for utilizing Network Nebraska for postsecondary education. The rates for all those using the network should be reduced as more educational entities participate.

The bill provides incentives to school districts to use Network Nebraska to provide distance education programs which would include dual enrollment courses. Incentives for schools districts to provide these courses could increase partnerships between schools and postsecondary education for dual enrollment courses which would have the potential of increasing enrollment and tuition income.

Other Bills: LB 1208, as amended, includes the provisions of LB 1049 relating to the Nebraska Telecommunications Commission (NETC). The bill eliminates language associated with potential lease arrangements and in turn allows contractual arrangements as it relates to transponder capacity, excess transmission spectrum or transmission and production facilities. Should NETC enter into contractual arrangements allowed by the bill, there is a potential for increased revenue. Any increase in revenue associated with any contractual arrangements would be subject to the appropriation process.

LB 1208, as amended, also includes the provisions of LB 969. The bill provides that beginning in 2009-10 a school district may not establish an alternating biennial secondary course offering in any subject area in which the State Board of Education has adopted content standards. The State Board of Education currently has content standards in math, science, social studies/history and reading/writing.

These provisions have no fiscal impact for any state agency. There may be a fiscal impact for school districts that are offering biennial courses in one of the subject areas having content standards. The districts may have increased expenses for staff to teach the courses each year rather than every other year. It is possible school districts may use distance learning classes to meet the requirements of the bill which will cost less than the employment of additional staff. The State Department of Education indicates 63 school districts reported biennial course offerings in math, science, social studies/history or reading/writing in 2003-05. Any increase in expenditures by school districts will increase the amount of state aid distributed, two years after the expenditures occur.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	William Scheideler	DATE	3/24/06	PHONE	471-2526
NEBRASKA COMMUNITY COLLEGE ASSOCIATION: Concur.					
NEBRASKA DEPARTMENT OF EDUCATION: LB 1208 changes the current distribution of lottery revenues from the General Fund to "distance education incentives and equipment" [Section 1 of LB 1208 revises Neb. Rev. Stat. § 9-812] and results in an estimated \$3.6 Million loss to the General Fund for FY2006-07 (assuming \$24 Million in total lottery proceeds).					
In addition to the Department's identified need for an additional 0.5 FTE to distribute the distance education incentives, the LB 689 Task Force considered the need for 2.0 FTE staffing and software to support the newly created Distance Education Council. Altogether, it appears there is need for an additional \$500,000 to \$600,000 in General Funds required to implement LB 1208.					
LB 1208 will surely accelerate school spending for distance education, increasing future TEEOSA State Aid General Fund requirements as soon as FY2008-09. Several provisions in the bill, including the 85% Aid Allowance and the exception to the Applicable Allowable Growth Rate limitation for distance education activities, will probably encourage greater distance education activity. In addition, anticipated rate increases for distance education transport and increasing curriculum standards (i.e., proposed Rule 10 changes by the State Board of Education) will also motivate higher distance education spending in many local schools.					
NEBRASKA STATE COLLEGES: Concur.					