

**FISCAL NOTE**  
 LEGISLATIVE FISCAL ANALYST ESTIMATE

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *</b>				
	<b>FY 2007-08</b>		<b>FY 2008-09</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	See Below		See Below	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

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

LB 547 is the Nebraska Student Advantage Act. The act applies to eleven school districts within and adjacent to a city of the metropolitan class (Omaha). The bill repeals the Learning Community Reorganization Act in LB 1024 (2006) and other parts of the bill pertaining to the calculation of state aid to schools (TEEOSA). It is assumed the state aid provisions of the bill apply beginning in 2008-09. The following provisions of LB 547 have a fiscal impact for the state and/or school districts.

Levies: The repeal of the Learning Community Reorganization Act eliminates the common levy established for the eleven school districts in the metro area learning community and other levies authorized for special building funds, the learning community budget and projects. The repeal of the common levy will not change the overall levy maximum for schools that are no longer part of a learning community but property tax revenues and expenditures of affected districts may change from what would have been received under a common levy.

Division of Class V School District: The fiscal impact of the repeal of current law requiring the division of a Class V district into separate districts by July 1, 2007 is unknown. If the spending of the Class V district is similar to what would have been spent by the separate districts established per LB 1024, then total state aid will not change appreciably in 2009-10.

State Aid (TEEOSA): The bill changes the computation of state aid for all school districts in several ways. The allowances for poverty, limited-English proficiency, focus schools and elementary class size that were established in LB 1024 are repealed. New allowances for transportation, professional development, marketing, focus schools/academies of excellence, and magnet pathway programs are created for school districts in the metro area. Weighting factors for students in focus schools and academies of excellence are adjusted upward in the bill for purposes of determining the allowances. Allowances do not change the overall amount of state aid allocated, but will alter the distribution of aid among school districts. The allowances enable expenditures for these types of programs to be attributed to the school district actually providing the program rather than have the expenditures spread out amongst all districts in the cost group. The additional allowances lower the cost group cost per student in the formula. Non-metro schools and metro schools will receive less state aid due to the lower cost group cost per student and metro schools with expenditures for programs allowed as an allowance will receive state aid in the amount of the allowances.

LB 547 repeals changes made in LB 1024 in the application of the cost growth factor in the formula. The fiscal note on LB 1024 shows a fiscal impact of \$24.63 million of increased state aid to schools pursuant to changes in the cost growth factor based on the 2006-07 calculation of state aid. The projected increase in state aid was to occur beginning in 2008-09.

The method to calculate “needs” in the state aid formula is unclear. Conflicting language in Section 66 appears to continue the use of the temporary aid adjustment factor in the calculation of “needs” in the state aid formula beginning in 2008-09. This reduces state aid by an estimated \$31.6 million in 2008-09. The section provides two methods to calculate “needs” beginning in 2008-09, one of which freezes the need level at the prior years amount for all school districts levying at or above \$.99. The other method eliminates the stabilization factor added in LB 1024 for schools with declining enrollment which will decrease aid by an estimated \$1.2 million in 2008-09.

LB 1024 eliminated net option funding for students attending another school in a learning community in which the student resides. LB 547 restores net option funding for metro area schools. Net option funding is \$43.7 million in 2006-07. Metro area districts receive approximately \$20.4 million of net option funding in 2006-07. The change will mean net option funds that would have distributed as allocated income tax funds to all school districts beginning in 2008-09 will now be allocated as net option funding to metro area districts. The overall amount of state aid distributed as net option/allocated income tax aid will not change since the total amount is capped, but aid for individual school districts will increase or decrease. An increase or decrease in net option/allocated income tax funds for a school district impacts the resources of the district for purposes of computing state aid.

Student Voluntary Inclusion Plan/Transportation Reimbursement: LB 547 establishes a student voluntary inclusion plan for metro area school districts beginning in 2008-09. Students who are accepted by a school district in the metro area to attend school in another metro district, which students contribute to the socioeconomic diversity of the receiving school district, shall receive transportation or transportation reimbursement. It appears a rate is established to pay parents for transportation costs and NDE is to reimburse school districts for 101% of such transportation costs. It is assumed that costs for the district to transport students in the voluntary inclusion plan will become part of the transportation allowance. The fiscal impact to reimburse schools to pay parents to transport students in the voluntary inclusion plan beginning in 2008-09 is unknown.

Professional Development Reimbursement: The bill provides for the state to reimburse metro area schools for the full costs of professional development programs targeted to strategies related to differentiated instruction, creation of inclusive learning environments and closing achievement gaps. The fiscal impact to reimburse metro area schools for professional development costs beginning in 2008-09 is unknown and may be significant. It is unclear how this reimbursement relates to the allowance in the bill.

Magnet Pathway Program, Focus School or Academy of Excellence: Beginning in 2009-10, school districts in the metro area are required to participate in at least one joint entity pursuant to the Interlocal Cooperation Act for a magnet pathway program, focus school or academy of excellence. School districts participating in these programs are to be reimbursed for the expenses to create and implement the programs in the state aid formula (TEEOSA). It is assumed the reimbursement referred to through TEEOSA is as an allowance in the formula.

Allowable Growth Rate Exceptions: The bill repeals the sections of LB 1024 allowing any school district to exceed the allowable growth rate by certain amounts due to allowances for poverty, elementary class size, focus schools and limited English proficiency. Schools in a learning community were also allowed to exceed the allowable growth rate for transportation costs. The fiscal impact of these provisions was unknown, but projected to be significant.

LB 547 allows metro school districts to exceed the applicable allowable growth rate in certain instances. School districts in the metro area may exceed the allowable growth rate for increases in transportation for incoming students in the voluntary inclusion plan. Metro schools may also exceed the allowable growth rate in an amount equal to increased expenditures for focus schools, academies of excellence, professional development and marketing programs and magnet pathway programs pursuant to the Nebraska Student Advantage Act. The amount of expenditures for these programs is unknown.

These provisions allow metro school districts to increase spending with property tax dollars by the amount of exclusions. This will increase state aid two years later when the increased expenditures are included in the calculation of adjusted general fund operating expenditures. There will be an unknown fiscal impact for these provisions, which could be significant. The increases in aid will occur on a staggered basis depending upon when the programs are implemented in the bill. The initial increases in state aid distributed will occur in 2009-10 for amounts expended for professional development and marketing programs. Subsequent increases will occur in 2010-11 for increases in transportation and in 2011-12 for increased expenditures for focus schools, academies of excellence and magnet pathway programs. The increased aid will accrue to metro districts because the aid will be in the form of allowances.

Transition Aid to Learning Communities: Learning communities were to receive transition aid for the second year of the learning community's existence to fund the budget of the learning community. The metropolitan learning community was to also receive transition aid for its third year of existence. LB 547 repeals transition aid to learning communities which will reduce state aid by \$202,800 in 2007-08 and 2008-09.

Education Innovation Fund: The bill changes the allocation of the Education Innovation Fund (lottery) for 2008-09. Current law provides for \$750,000 of the fund to be used for the Attracting Excellence to Teaching Program in 2008-09. LB 547 increases the amount to \$1 million. The \$250,000 increase for the teacher loan forgiveness program will reduce the amount of funds available for reimbursement of distance learning equipment and distance learning incentives by a like amount in 2008-09.

Integration Task Force: The repeal of the learning community act eliminates the need for \$1,650 of general funds appropriated for an integration task force established by the learning community coordinating council in 2007-08.

State Administration - NDE: LB 1024 provided funds for an additional 2.0 FTE at NDE to administer the state aid provisions of the bill. The estimated fiscal impact of two additional staff was \$145,400 beginning in 2007-08. An additional \$23,000 of one-time operating expenses and capital outlay costs was also included in 2007-08 for computer programming, data collections and server upgrades to collect and process the information required to implement the bill. NDE indicates the additional staff will not be required to implement the state aid provisions of LB 547, but \$25,000 of one-time expenses for computer programming, data collection and server upgrades will be required in 2007-08.

NDE is required to adopt a student-unit-record data system with unique student identifiers to track individual student progress through the state's education system including attendance, assessments and graduation. NDE estimates a one-time cost of \$70,000 of general funds for the data system in 2007-08.

The bill requires the Commissioner of Education to appoint a state student achievement coordinator rather than a high needs education coordinator as was required in LB 1024. There should be no additional fiscal impact for the coordinator's position since LB 1024 A included \$114,200 of general funds beginning in 2006-07 for the new position.

The bill requires the Commissioner to appoint a committee to study the impact of a common levy among school districts with high concentrations of certain types of students and determine the effect the levy would have on closing academic achievement gaps. A report is required by January 1, 2009. It is assumed the department will use existing resources to fund the study. NDE will also have increased expenses for rule development that can be handled with existing resources.

In summary, the estimated general fund fiscal impact of the bill is as follows:

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
<u>LB 1024 - Repeal</u>				
Integration Task Force	(1,650)	0	0	0
NDE – 2.0 FTE	(145,400)	(145,400)	(145,400)	(145,400)
NDE – One-time computer/server costs	(23,000)	0	0	0
Transition Aid for Learning Communities	(202,800)	(202,800)	0	0
State Aid Increase – Cost Growth Factor	0	(24,630,000)	(24,630,000)	(24,630,000)
State aid increase - allowable growth rate exceptions	<u>0</u>	<u>0</u>	<u>0</u>	<u>?</u>
	(362,850)	(24,978,200)	(24,775,400)	?
<u>LB 547 – Fiscal Impact</u>				
Transportation Reimbursement	0	?	?	?
Professional Development Reimbursement	?	?	?	?
Calculation of “needs”	?	?	?	?
State aid increase – allowable growth rate exceptions	0	0	?	?
NDE – One-time computer/server costs	25,000	0	0	0
NDE – One-time data system expenses	<u>70,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
	?	?	?	?

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	William Scheidler	DATE	2/2/07	PHONE	471-2526
<b>COMMENTS</b>					
NEBRASKA DEPARTMENT OF EDUCATION: Generally concur with Department of Education but believe at least some of its operational needs provoked by LB 547 can be absorbed with existing resources.					
Given the unknown level of student participation in focus school programs/magnet pathways and the absence of specific plans to serve such students, LB 547’s fiscal impact is indeterminable. However, it is clear that LB 547’s allowances will shift state aid from school systems outside the 11 metropolitan school districts to these metropolitan programs/magnet pathways and given LB 547’s exclusions from the expenditure and levy limits, school spending would increase significantly resulting in higher state aid formula need two years later.					