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471-0054

LB 236

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

| ESTIMATE OF FISCAL IMPACT – STATE AGENCIES * | | | | |
|--|-----------------|---------|-----------------|---------|
| | FY 2011-12 | | FY 2012-13 | |
| | EXPENDITURES | REVENUE | EXPENDITURES | REVENUE |
| GENERAL FUNDS | (\$184,762,959) | | (\$231,862,537) | |
| CASH FUNDS | | | | |
| FEDERAL FUNDS | | | | |
| OTHER FUNDS | | | | |
| TOTAL FUNDS | (\$184,762,959) | | (\$231,862,537) | |

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

LB 236 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA). The following narrative describes the changes made in the act. A cumulative fiscal impact is estimated for all of the changes and is shown at the end of the fiscal note.

CHANGES TO NEEDS IN THE TEEOSA FORMULA:

Base Limitation/Cost Growth Factor: The base limitation rate or basic allowable growth rate in the aid formula is decreased from 1.5% to 0% for FY2011-12 and FY2012-13. The 1.5% decrease in the rate decreases the cost growth factor in the formula which is used to inflate school district expenditures for purposes of calculating aid. The cost growth factor is also adjusted to eliminate an additional factor which is currently added to the basic allowable growth rate for the aid year plus the basic allowable growth rate for the prior aid year. The 1% factor is eliminated. (Note that the factor is normally 1% but it has been changed to 1.5% for aid distributed in FY2011-12 and FY2012-13). These changes result in a calculated cost growth factor of .25% for FY12 and 0% for FY13. The decrease in the cost growth factor decreases the amount of state aid that is provided as basic funding.

Averaging Adjustment: LB 236 repeals the averaging adjustment in the formula. The averaging adjustment increases need for districts whose basic funding per student is less than the averaging adjustment threshold. The averaging adjustment totaled \$81.9 million in the current FY2010-11 state aid distribution. The repeal will reduce annual state aid by the amount of the adjustment.

Needs Stabilization: The bill repeals the needs stabilization component of the formula. Currently, the amount of need is stabilized at the prior year's level, if need is calculated to be less than the prior year. Needs stabilization totaled \$26.2 million in the current FY2010-11 distribution of state aid. The repeal will reduce needs for districts that are eligible for the stabilization aid.

CHANGES TO RESOURCES IN THE TEEOSA FORMULA:

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

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

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

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

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

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

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

FISCAL IMPACT: In summary, the fiscal impact of each of the formula changes has not been calculated separately due to the interaction of the components of the formula. Collectively, it is estimated the bill decreases the amount of state aid distributed in FY2011-12 by \$184.8 million and the amount distributed in FY2012-13 by \$231.9 million of general funds. The fiscal impact estimate does not include any reductions in spending or aid due to the budget limit changes included in the bill because these will not be realized until FY2013-14 and are unknown at this time.

| | FY2010-11 certified | LB 236 FY2011-12 estimated | FY2012-13 estimated |
|----------------------|--------------------------------|---|--------------------------------|
| Total TEEOSA | | | |
| Current Law | 950,221,736 | 985,371,200 | 1,076,062,674 |
| LB 236 Changes | | <u>800,608,241</u> | <u>844,200,137</u> |
| Total Savings | | 184,762,959 | 231,862,537 |
| General Funds | | | |
| Current Law | 796,734,559 | 971,028,540 | 1,061,361,447 |
| LB 236 Changes | | <u>786,265,581</u> | <u>829,498,910</u> |
| Total Savings | | 184,762,959 | 231,862,537 |

LB 236 FISCAL NOTE

RECEIVED
JAN 19 2011
LEGISLATIVE SERVICES

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

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

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

| | <u>FY 2011-12</u> | | <u>FY 2012-13</u> | |
|---------------|---------------------|----------------|---------------------|----------------|
| | <u>EXPENDITURES</u> | <u>REVENUE</u> | <u>EXPENDITURES</u> | <u>REVENUE</u> |
| GENERAL FUNDS | _____ | _____ | _____ | _____ |
| CASH FUNDS | _____ | _____ | _____ | _____ |
| FEDERAL FUNDS | _____ | _____ | _____ | _____ |
| OTHER FUNDS | _____ | _____ | _____ | _____ |
| TOTAL FUNDS | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |

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

Explanation of Estimate:

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

MAJOR OBJECTS OF EXPENDITURES

Personal Services:

| <u>POSITION TITLE</u> | <u>NUMBER OF POSITIONS</u> | | <u>2011-12</u> | <u>2012-13</u> |
|----------------------------|----------------------------|--------------|---------------------|---------------------|
| | <u>11-12</u> | <u>12-13</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| Benefit | _____ | _____ | _____ | _____ |
| Operating | _____ | _____ | _____ | _____ |
| Travel | _____ | _____ | _____ | _____ |
| Capital outlay | _____ | _____ | _____ | _____ |
| Aid | _____ | _____ | _____ | _____ |
| Capital improvements | _____ | _____ | _____ | _____ |
| TOTAL | _____ | _____ | <u>0</u> | <u>0</u> |

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

- The cost growth factor will be .25.
- The amount available for the income tax rebate and net option funding will be decreased by \$21 million. The current reduction for the income tax rebate and net option funding is \$20 million.
- The averaging adjustment is repealed.
- Needs stabilization is repealed.
- The Local Effort Rate (LER) would be \$1.025. The current LER is \$1.00.
- The Basic Allowable Growth Rate (BAGR) would be 0%. The current statute provides for a 1.5% BAGR.
- The calculation of the Applicable Allowable Growth Rate (AAGR) is repealed. Current statute calculates AAGR as a range from BAGR to 3% above BAGR. For 2011/12 the range would be 1.5% to 4.5%.
- The calculation of certified budget authority will change to reduce growth in budgets.

No fiscal impact to NDE.

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

The changes to the expenditure lid (BAGR, AAGR, unused budget authority, calculation of certified budget authority) will reduce the growth of budget authority in 2011/12 and 2012/13.