

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2017-18</b>		<b>FY 2018-19</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$167,350		\$294,800	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$167,350</b>		<b>\$294,800</b>	

**Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.**

LB 630 is the Independent Public Schools Act. An independent public school is deemed to be a political subdivision which operates under a compact granted by an authorizer. An authorizer is the Independent Public School Authorizing and Accountability Commission, which is created by the bill, or a school district granting a compact. Independent public schools are to be managed by a board of trustees.

Persons or entities eligible to apply to be an independent public school include, but are not limited to, teachers, parents, school administrators, community residents, public organizations, or nonprofit organizations or a combination thereof. An initial compact is for five years and may be renewed for successive five-year periods. Applications are to be submitted by November 1<sup>st</sup> of each year for the following school year.

The Class V School Employees Retirement Act shall apply to employees of an independent public school which is authorized by the school board of a Class V school district and the School Employee Retirement Act will apply to employees of other independent public schools.

The school district in which an independent public school is located shall provide transportation to the independent school for students living in the school district on the same terms as is provided to students attending school in the district. Students not living in the district are eligible for transportation as provided for students in the option enrollment program. Transportation expenses for independent school students are included as part of the transportation allowance for school districts for purposes of the Tax Equity and Educational Opportunities Support Act (TEEOSA).

Independent public schools are eligible for state aid equal to the enrolled students multiplied by the statewide basic funding per formula student. No tuition or fees may be charged to attend an independent public school. Since the bill will be effective sometime in September of 2017, it is assumed that independent public schools will not be authorized to operate until FY2019-20.

Independent Public School Authorizing and Accountability Commission: The bill creates an eight member Commission responsible for granting compacts for independent public schools which are not granted a compact by a school district. The Commission is to adopt rules and regulations to carry out the act for independent public schools operating pursuant to a compact granted by the Commission and for independent public schools operating per a compact granted by a school district. The Commission has the authority to place independent schools on probation and may revoke compacts.

The bill authorizes the Commission to hire an executive director and other necessary staff with funds appropriated by the Legislature. It is assumed the expenses of the Commission itself will also be covered by the appropriation provided by the Legislature.

It is assumed the Commission will initially hire an executive director and a staff assistant in October of FY2017-18 and a program analyst will be added to the staff in FY2018-19. Necessary staff in the future will depend upon the number of independent public schools established in the state. The estimated general fund fiscal impact for staff, operating expenses and equipment is \$153,750 in FY18 and \$282,000 in FY19. There will also be a cost to reimburse Commission members for necessary expenses. Assuming six meetings are held in FY18 and eight meetings are held in FY19, the estimated expenditures for the Commission are \$9,600 in FY18 and \$12,800 in FY19.

Independent Public School Aid: The number of independent public schools and student enrollment is unknown. National data shows about 5% of public school students attend charter schools in FY2013-14. If 1% of public school formula students attended an independent public school in the current year, then about \$28.6 million of state aid would be provided to independent public schools.

It is assumed independent schools would initially start operating in the FY2019-20 school year and independent public school aid would begin in that year.

School District Expenditures: There may be increased transportation expenditures for school districts to transport students to independent public schools or pay parents for the cost of transportation. The change in transportation costs will depend upon what is currently spent to transport the children versus the cost to transport them to the independent school. (See transportation allowance below)

School districts which have students who opt to attend an independent public school may be impacted due to a reduction in the number of students. If decreased membership in a particular school is very few, then a school district may not be able to decrease expenditures by the amount of revenue which is lost due to the change in enrollment. This is because a portion of school expenditures are fixed. In other words, a small change in the number of students for a school does not necessarily decrease the cost of teachers, etc. (See TEEOSA impact below)

TEEOSA Aid: The bill will change the amount of state aid provided to school districts beginning in FY2021-2022, if independent schools begin operating in FY2019-20.

Under one scenario, the number of formula students used in the state aid formula will decrease if students opt to attend independent public schools and general fund operating expenditures of school districts will decrease if fewer students are educated. If expenditures by school districts decrease by at least the basic funding per formula student, then state TEEOSA aid will decrease, two years after the spending decrease occurs.

Under another more likely scenario, the number of formula students used in the formula will decrease. However, if students leave public school districts to attend an independent public school and total general fund operating expenditures are not reduced by the amount of the basic funding per formula student, then state aid will not decrease sufficiently to offset the aid provided to independent public schools. The change in state aid will occur two years after the change in spending occurs.

The bill allows transportation expenses for independent public school students to be included in the transportation allowance for public schools which are required to provide transportation for independent public school students. Allowances in the state aid formula attribute expenditures for a specific purpose to a school district which incurs the expenditures. If the provision of transportation for independent public school students increases a district's transportation expenses, then the allowance will allow a district which receives equalization aid to receive aid for the increase expenditures. The overall impact on TEEOSA aid is unknown, but is estimated to be minimal.

State Department of Education (NDE) Expenditures: The bill requires NDE to determine and allocate state aid to independent schools. The agency is also required to post each independent school's annual report on the department's website. It is assumed the department can these responsibilities with existing staff and resources.

Retirement: The bill will have an unknown fiscal impact for the Class V school district retirement system or the Nebraska School Employee Retirement Plan if an independent public school or schools are authorized. An actuarial analysis in the form a cost study letter from the retirement systems contracted actuary will be needed. The letter will address potential costs for the school retirement systems from the inclusion of independent public school employees in the plans. The one-time cost of the actuarial letter is \$2,000 of general funds in FY18. Additional one-time printing and educational costs in FY18 are estimated to be \$2,000 of general funds.

Summary: It is assumed that independent public schools will not be authorized to operate until at least the FY2019-20 school year. The estimated general fund cost for the authorizing commission and staff is \$163,350 in FY2017-18 and \$294,800 in FY2018-19. There are one-time general fund costs of \$4,000 for the retirement system in FY2017-18.

General fund aid for independent public schools will begin in FY2019-20, if independent public schools are approved. It is assumed that TEEOSA aid for public schools will decrease by an unknown amount beginning in FY2021-2022.

Technical Note: The Independent Public School Authorizing and Accountability Commission needs a home for budgetary purposes. It could be established as a separate state agency or located in the State Department of Education or another state agency.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES		
LB: 630	AM:	AGENCY/POLT. SUB: NPERS
REVIEWED BY: James Van Bruggen	DATE: 1/30/17	PHONE: (402) 471-4179
COMMENTS: Agree with Nebraska Public Employees Retirement Systems' statement of fiscal impact.		

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2017

LB<sup>(1)</sup> 630

FISCAL NOTE

State Agency OR Political Subdivision Name: <sup>(2)</sup>

NE Department of Education (NDE)

Prepared by: <sup>(3)</sup> Freida Lange/Scott Summers

Date Prepared: <sup>(4)</sup> 1/24/17

Phone: <sup>(5)</sup> 402-471-2444

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2017-18</u>		<u>FY 2018-19</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>

**Explanation of Estimate:**

Costs incurred by the Nebraska Department of Education if the implementation of LB 630 occurs would not be readily determined as the responsibility of authorizing and monitoring Independent Public Schools (IPS) would fall under the auspices of a newly created commission called, "Independent Public School Authorizing and Accountability Commission" which would operate outside of the NDE.

Costs to other political subdivisions cannot be determined at this date with the data available; however, passage of LB 630 would have definite fiscal impact on the following:

**\*The new "Independent Public School Authorizing and Accountability Commission,"** appropriations cannot currently be calculated, but would be based upon the support for training, travel and lodging of eight Commission members for an unknown number of meetings per year, plus potential rent/lease/ownership of meeting space. In addition the bill notes an Executive Director and "such other staff as necessary" would be hired "within the funds appropriated by the Legislature."

**\*Newly created Independent Public Schools** would incur the costs of starting a new school, which would include, but not be limited to organizational costs, locating an appropriate site/facility, hiring staff, curriculum development, educational materials, staff training, etc.

**\*Existing Public School Districts** -- LEA budgets would be impacted if an Independent Public School were authorized to open within that district. This funding allocation cannot currently be estimated as a loss, gain, or maintained, but, would be based upon the public school aid established by the number of students reported in the fall membership. For all districts, a finite amount of funding is available and would be allocated toward an increased number of political subdivisions, thus reducing potential allocations. In addition, the resident public school districts would be required to provide transportation or cover transportation costs for students attending the independent public school(s).

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
<i>Cannot be determined at this date</i>	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____

**Aid**.....  
**Capital improvements**.....  
**TOTAL**.....

_____	_____
_____	_____
_____	_____
_____	_____

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**2017**

**LB<sup>(1)</sup> 630**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> NPERS

Prepared by: <sup>(3)</sup> Randy Gerke Date Prepared: <sup>(4)</sup> 1/26/2017 Phone: <sup>(5)</sup> (402) 471-9495

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$4,000			
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<u>\$4,000</u>			

**Explanation of Estimate:**

The costs associated with this bill should not be taken from NPERS Trust funds. The initial start up costs would need to be appropriated from general funds.

LB630 adopts the Independent Public Schools Act which creates independent public schools in Nebraska. As currently written the bill would allow for all employees of the independent public schools to be members of the Omaha School Employee Retirement System or the Nebraska School Employee Retirement Plan administered by NPERS depending on location of the independent public school. Provisions of this bill will potentially increase volume of employers that will report data and submit contributions to the NPERS system. It will also increase membership into the plan. It is difficult to know the impact of this bill on the retirement systems at this time.

An actuarial analysis in the form of a cost study letter from our contracted actuary is requested. This letter would discuss the potential items that could impact the cost of the School plan, both positively and negatively. It would address costs regarding unfunded liabilities and closing of these independent public schools. The one-time cost of this actuarial letter would be \$2,000.

There would be need for additional printing as well as member and employer educational costs. NPERS estimates that this would be \$2,000.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....			\$4,000	
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>			<u>\$4,000</u>	

