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LB 656

Revision: 00

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			\$739,968,908	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			\$739,968,908	

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

LB 656 terminates the Tax Equity and Educational Opportunities Support Act (TEEOSA) which provides state aid to school districts on July 1, 2021. Beginning in FY2020-21, the bill establishes an act known as the Nebraska Education Formula. It also changes the maximum levy allowed for school districts and repeals the enrollment option program beginning in FY2020-21. Changes are made in the budget authority for school districts. Current limits on reserve percentages are retained as is the schedule for state aid payments and the use of insurance premium tax receipts for state aid.

State Aid per the Nebraska Education Formula:

Aid per Student: The formula is a foundation aid type of distribution which provides state aid based upon data from the preceding school year equal to the sum of: \$4,750 per student based upon fall membership; \$500 per student in a sparse of very sparse school district; \$1,600 per free lunch student; additional \$800 per free lunch student in districts with at least 50% free lunch students; and, \$1,600 per English limited proficiency student.

Hold-Harmless: A hold harmless provision for FY2020-21 aid provides that: in addition to the per student aid allocations, if state aid in FY2019-20 exceeds the amount calculated for FY2020-21, then a district will receive the amount calculated for FY2019-20 plus two-thirds of the amount by which FY20 aid exceeds FY21 calculated aid. Likewise, additional aid is provided in FY2021-22 if state aid in FY2019-20 exceeds the amount calculated for FY2021-22, then a district will receive the amount calculated for FY2021-22 plus one-third of the amount by which FY20 aid exceeds FY21.

Class Size: The bill also has requirements in terms of class sizes for districts in order to receive state aid. There can only be 20 students in early childhood, kindergarten and classrooms for grades one through three; 22 students in classrooms in grades four through eight; and, 25 students in classrooms in grades 9 through 12.

TEEOSA aid in FY2019-20 is estimated to be \$1,077,979,292. Using the data elements for the FY20 aid distribution, it is estimated LB 656 will increase the amount of aid allocated to schools by about \$740 million, to \$1,817,948,200. This estimate does not take into account the requirements to limit class sizes.

Budget Authority for School Districts: The bill changes the base limitation rate for school districts beginning in FY2020-21. Current law provides for the base limitation rate to be 2.5% in FY21. LB 656 provides for the rate to be the change in the Consumer Price Index from the immediately preceding year to the year of the certification. It appears that current exclusions to the budget lid are repealed as is the use of any unused budget authority from prior years. A district may exceed the budget authority by a 2/3 majority vote by legal voters.

The change in the base limitation rate from 2.5% to whatever the change in the CPI is may have some impact on future spending by school districts. Since the actual change is unknown, a fiscal impact is not able to be determined. The elimination of budget lid exclusions as well the elimination of the use of unused budget authority will likely have a fiscal impact on the amount of expenditures by some school districts in the future. No fiscal impact can be determined.

Levy Authority for School Districts: Currently, school districts are authorized to levy a maximum of \$1.05. The bill changes the levy maximum for FY2020-21 to be: \$1.00 minus the levy that would be required to tax for 85% of the state aid calculated pursuant to the Nebraska Education Formula. Thereafter, the levy maximum each year is equal to the maximum calculated for FY2020-21.

The bill also increases the voting threshold for a school to exceed the levy limit. The bill requires a 2/3 majority vote to exceed the levy limit rather than the current requirement for a majority vote to exceed the levy limit.

Net Change in Resources for School Districts: The following table shows a calculation of the net change in resources for school districts based upon the new levy limit in the bill and the amount of state aid provided through the Nebraska Education Formula. The estimate shows a net decrease of approximately \$464.8 million of resources for school districts from state aid and property taxes per the bill.

Statewide Valuation	\$249,234,881,595
Current State Aid	\$1,077,979,292

Calculation of Levy for Tax Asking Per Bill:	
Calculated State Aid Per LB 1088	\$1,817,948,200
85% Factor Applied to State Aid	<u>0.85</u>
Tax Asking Per Bill	\$1,545,255,970
Levy to Generate Tax asking	0.6200
Calculation of New Levy Limit:	
Beginning Levy in Bill	\$1.00
Less: Levy to Generate Tax Asking	0.6200
New Levy Limit for Schools	0.3800
Calculation of Change in Property Taxes Per Bill:	
Actual Taxes Levied Per Current Law (General Fund Operations)	\$2,151,849,591
Maximum Property Taxes at \$.3800 Levy	<u>\$947,092,846</u>
Decrease in Property Taxes Levied Per Bill	-\$1,204,756,745
Fiscal Impact of Change in Tax Levy & State Aid	
Decrease in Property Taxes Levied Per Bill	-\$1,204,756,745
Increase in State Aid Per Bill	<u>\$739,968,908</u>
Net Change in Resources for School Districts Per Bill	-\$464,787,837

Repeal of the Enrollment Option Program: The bill repeals the enrollment option program beginning in FY2020-21. It appears that current option students could stay in the option district if tuition was paid by the resident district. The fiscal impact of the repeal of the program is unknown.