

**FISCAL NOTE**  
 LEGISLATIVE FISCAL ANALYST ESTIMATE

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2019-20</b>		<b>FY 2020-21</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	(\$31,320,606)		(\$90,109,125)	(\$179,272,772)
PROPERTY TAX CREDIT FUND			(\$224,000,000)	(\$224,000,000)
FEDERAL FUNDS				
TEEOSA FUND			\$403,272,772	\$403,272,772
<b>TOTAL FUNDS</b>	(\$31,320,606)		\$89,163,647	0

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

LB 695 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act (TEEOSA). The bill also changes provisions related to the Property Tax Credit Tax Fund.

**CHANGES TO NEEDS IN THE TEEOSA FORMULA:** The bill changes various portions of the computation of school district needs in the state aid formula. The changes which will have a fiscal impact are as follows:

**Base Limitation/Cost Growth Factor:** The base limitation rate or allowable growth rate in the aid formula is changed in the bill. Currently, the base limitation rate is 1.5% for FY2018-19 and 2.5% for FY2019-20. The bill changes the base limitation rate used in the formula beginning in **FY2019-20** to be the inflation rate as certified by the Tax Commissioner. The inflation rate will be calculated based upon the change in the Consumer Price Index in the most recent two years. If the inflation rate change in the CPI for the most recent two years is greater than 2.5%, then the rate is set at 2.5% of that school year. If the inflation rate is less than 0%, then the rate is set at 0% for that school year.

The change in the base limitation rate in FY20 decreases the cost growth factor in the formula which is used to inflate school district expenditures for purposes of calculating aid. Currently, the cost growth factor is 4% for FY20 and 5% for FY21. The change in the allowable growth rate for FY20 decreases the cost growth factor to 3.78% for FY20 and 4.51% for FY21.

A decrease in the cost growth factor reduces the amount of state aid that is provided as basic funding. The reduction in basic funding pursuant to the decrease in the cost growth factor is projected to be \$5.1 million in FY20 and \$12.8 million in FY21.

**Averaging Adjustment:** The averaging adjustment in the formula is eliminated beginning in **FY2019-20**. The averaging adjustment increases need for districts whose basic funding per student is less than an averaging adjustment threshold. The elimination of the averaging adjustment decreases state aid by an estimated \$26 million beginning in FY20.

**CHANGES TO RESOURCES IN THE TEEOSA FORMULA:**

**Local Effort Rate/Local Contribution Rate:** The local effort rate in the formula is currently set at \$1.00 for FY20 and FY21. LB 695 eliminates the local effort rate and provides for a local "contribution rate". The bill leaves the local effort rate at \$1.00 for purposes of the aid calculation in FY2019-20. In FY2020-21, the bill provides that the local formula contribution rate for each school district will be \$.90.

Beginning in FY2021-22, the local contribution rate for each district is the lesser of the local effort rate yield or the inflation rate yield. The local effort rate yield is defined to be \$.90 and the inflation rate yield is the sum of: the local contribution rate in the prior school year adjusted by the previously defined inflation rate, plus the growth in real property multiplied by a local effort rate of \$.90.

The change in the local effort rate/local contribution rate is estimated to increase state aid by \$145.8 million in FY21.

**Foundation Aid:** Beginning in FY2020-21, the bill provides for the payment of foundation aid. Foundation aid for each district is to be based upon the ratio of 25% of the sum of aggregate income taxes plus aggregate sales taxes for the most recently completed calendar year divided by fall membership. The estimated increase in state aid in FY21 for foundation aid is \$257.5 million.

**Allocated Income Taxes:** The bill eliminates the aid provided to school districts as allocated income taxes through the formula beginning in FY 2020-21. Currently funds in the amount of 2.23% of the income tax liability of a school district are allocated to school districts as allocated income taxes in the formula. The elimination of allocated income taxes decreases state aid by an estimated \$7.4 million in FY21.

**Net Option:** Current law provides for net option funding in FY2019-20 and thereafter to be the product of the net number of option students times the statewide average basic funding per formula student. The bill changes net option funding beginning in FY2020-21 to be the product of the net number of option students times 99% of the statewide average general fund property taxes per formula student. The change in net option funding will decrease state aid by \$14.2 million.

**HOLD-HARMLESS PROVISION:** The bill provides a hold-harmless provision in FY2020-21 and FY2021-22 in terms of the amount of aid to be distributed. The amount for each district shall be the greater of: the amount of funds received from the Property Tax Credit Act for the FY2019-20 school year or the amount of TEEOSA funds received in the FY2019-20 school year. The hold-harmless provision is estimated to increase state aid by \$14,900 in FY21.

**CHANGES TO LEVY LIMITATIONS:** The current levy limitation for schools is \$1.05 per hundred dollars of valuation. Beginning in FY2020-21, the levy limitation is \$.05 plus a levy rate that generates an amount equal to the local formula contribution for the fiscal year. This reduces the levy limitation to \$.95 which will decrease the amount of property taxes collected by school districts that are currently levying in excess of \$.95.

The bill also provides an exclusion from the levy limit for projects commenced prior to the effective date of the bill for the construction, expansion or alteration of school buildings up to the amount that would be generated by a levy rate for the project for the FY2018-19 school year.

**CHANGES TO BUDGET LIMITATIONS:**

LB 695 provides that the basic allowable growth rate for general fund expenditures for school districts shall be the base limitation rate beginning in FY2020-21. The bill also provides that the basic allowable growth will remain at 2.5% for FY2019-20.

**PROPERTY TAX CREDIT CASH FUND:** Beginning in FY2020-21, by January 15<sup>th</sup>, the State Department of Education (NDE) is to certify the statewide increase in TEEOSA aid for the ensuing school fiscal year from changes from FY2019-20 in calculating the local formula contribution for each district and the inclusion of foundation aid in the formula. The Treasurer is to transfer this amount from the Property Tax Credit Cash Fund to the TEEOSA Fund to pay the increase to schools.

On or before January 30<sup>th</sup> of each fiscal year beginning in 2020, the Department of Revenue is to determine the minimum amount necessary to be appropriated to the Property Tax Credit Cash Fund for the ensuing year to carry out the Property Tax Credit Act. The amount certified by the Department of Revenue to carry out the act shall be the greater of: \$224 million or the amount certified by NDE that will fund the change in the method of calculating the local formula contribution and the amount of foundation aid. The Appropriations Committee is to recommend this amount to carry out the Property Tax Credit Act. The funds shall be transferred from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Support Fund to pay for state aid.

**SUMMARY:**

LB 695 decreases the amount of state aid distributed by an estimated \$31.3 million in FY20 and increases state aid by an estimated \$313.2 million in FY21. Changes in the formula which result in a change in state aid are shown on the following page:

<b>CHANGE in TEEOSA AID</b>	<b>FY2019-20</b>	<b>FY2020-21</b>
Current Law	1,077,979,291	1,085,430,587
LB 695 Estimated TEEOSA Aid	1,046,658,685	1,398,594,234
<b>Total Change</b>	<b>-31,320,606</b>	<b>313,163,647</b>
<b>Change by Component</b>		
Allowable Growth Rate	-5,135,641	-12,808,175
Eliminate Averaging Adjustment	-26,184,965	-26,009,238
Local Effort Rate to \$.90*		145,803,983
Net Option Funding		-14,191,122
Eliminate Allocated Income Tax Rebate		-7,402,390
Foundation Aid*		257,468,788
Hold Harmless		14,867
<b>Total Change</b>	<b>-31,320,606</b>	<b>342,876,713</b>

\*Per LB 695-these are financed by transfers from the Property Tax Credit Fund

The change in the amount of funds provided through the Property Tax Credit Cash Fund as proposed by the bill is shown below:

<b>PROPERTY TAX CREDIT FUND</b>	<b>FY2019-20</b>	<b>FY2020-21</b>
Current amount to Property Tax Credit Fund	224,000,000	224,000,000
Increase per LB695*	0	179,272,772
Total Available in Fund	224,000,000	403,272,772
Less: Transfers to TEEOSA Fund	0	403,272,772
<b>Total Available for Property Tax Credits</b>	<b>224,000,000</b>	<b>0</b>

\*Per LB 695 - these are financed by transfers from the Property Tax Credit Fund

Based upon the bill, the sources of the appropriation for TEEOSA aid would be changed beginning in FY21 as shown below:

<b>TEEOSA AID</b>	<b>FY2019-20</b>	<b>FY2020-21</b>
General Funds	1,019,658,685	967,821,462
Insurance Premium Taxes (w/o deficit)	27,000,000	27,500,000
TEEOSA Fund (per Property Tax Credit Fund)	0	403,272,772
<b>Total TEEOSA Aid</b>	<b>1,046,658,685</b>	<b>1,398,594,234</b>

**ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE**

LB: 695 AM: AGENCY/POLT. SUB: Department of Education

REVIEWED BY: Gary Bush DATE: 02/08/19 PHONE: (402) 471-4161

COMMENTS: No basis to disagree with the estimate provided by the agency.



The Department of Education is to certify to the Department of Revenue the statewide increase in state aid to be paid to local systems as a resulting from changes to the methods for calculating the local formula contribution and the inclusion foundation aid with the funding formula. The Department of Revenue, per this bill, shall transfer an amount equal to the greater of the certified statewide increase in state aid or two hundred twenty-four million dollars from the Property Tax Credit Fund to the Tax Equity and Educational Opportunities Fund.

Section 77-4212 is amended to reduce the amount of relief granted through property tax credit funds disbursed to counties by the amount transferred for state aid to school districts.

Allocated Income Tax Funds: Under current statute, Section 79-1005.01 calculates and distributes allocated income tax funds in the school aid formula. This bill provides for the distribution of allocated income tax funds to the school districts through the 2019-20 school fiscal year, eliminating for all school fiscal years thereafter.

Foundation Aid: New language is added to the for purposes of calculating the Tax Equity and Educational Opportunities Support Act to provide for foundation to each local system, beginning with school fiscal year 2020-21. The Department of Revenue is to certify to the Department of Revenue the aggregate income tax liability and state sales tax collections, beginning with tax year 2018. The aid equals the fall membership for each local system multiplied by the ratio of twenty-five percent of the sum of the certified aggregated taxes divided by the statewide fall membership.

Averaging Adjustment: Under current statute, section 79-1007.18 calculates an averaging adjustment in the equalization aid formula. An adjustment in the formula, in this case, attributes expenditures for districts with 900 or more formula students and basic funding per student is less than the averaging threshold. The adjustment is included in the formula needs is outright repealed beginning with school fiscal year 2019/20.

Net Option Funding: The bill changes the calculation of net option funding for purposes of the formula, beginning with school fiscal year 2020-21. Currently, net option funding is calculated based upon the net number of option students multiplied by the statewide average basic funding per formula student. LB 695 proposes to change the formula to calculate each local system's net option funding based on statewide average general fund property taxes per formula student by utilizing the ratio of ninety-nine percent of the general fund property tax requests for all school districts divided by the statewide formula students.

Local Formula Contribution (Local Effort Rate Yield): Section 79-1015.01 is amended to change the local effort rate from \$1.00 to 90 cents per one hundred dollars adjusted valuation for purposes of calculating the local formula contribution, to be included as a local system formula resources for purposes of calculating TEEOSA, for school fiscal year 2020-21.

Beginning with school fiscal year 2021-2022, this bill also amends Section 79-1015.01 to modify each local system's local formula contribution to equal the lesser of the local effort rate yield or the inflation rate yield. The local effort rate yield shall equal the product of the local system's total adjusted valuation multiplied by the local effort rate of ninety cents per one hundred dollars of adjusted valuation. The inflation rate yield shall equal the product of the prior year local formula contribution adjusted by the local formula contribution inflation rate plus the sum of the local system's total real property growth value adjusted valuation multiplied by the local effort rate of ninety cents per one hundred dollars of adjusted valuation. The local formula

contribution inflation rate shall equal the inflation rate calculated, without any ceiling limitations.

TEEOSA Certification & Distribution: This bill also amends Section 79-1022 to change the date the Department of Education determines the amounts to be certify and distribute to each local system pursuant to section 79-1022, certification of budget authority pursuant to section 79-1023, and certification of applicable allowable reserve percentages pursuant to section 79-1027, for school fiscal year 2019/20, from on or before March 1 to on or before June 10, 2019.

New language is added to section 79-1022 of the Tax Equity and Educational Opportunities Support Act to provide, for school fiscal years 2020-21 and 2021-22, that the amount to be distributed to each local system and certified shall be the greater of an amount equal to the funds received by the school districts in the local system pursuant to the Property to the Tax Credit Act for the 2019-20 school fiscal year or the total amount calculated pursuant to the remainder of the Tax Equity and Educational Opportunities Support Act prior to any adjustments for prior school fiscal years.

**FISCAL IMPACT:** This bill will have an effect on TEEOSA, which will have a corresponding impact on General Fund expenditures. The statewide increase needed to fund TEEOSA resulting from changes to the method for calculating the local formula contribution and the inclusion of foundation aid shall be transferred from the Property Tax Credit Fund to the Tax Equity and Educational Opportunities Fund.

It is estimated that the impact on General Fund expenditures for FY2019/20 would be a decrease in the Tax Equity & Educational Opportunity Fund of \$31,320,606.

The minimum amount necessary to be appropriated to the Property Tax Credit Cash Fund (or increase in aid), if funded at the level recommended to legislature, is estimated at \$372,000,000 minus the current property tax credit amount of \$224,000,000. The difference of \$148,000,000 is the fiscal cost for 2020/21.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2019-20 EXPENDITURES</u>	<u>2020-21 EXPENDITURES</u>
	<u>19-20</u>	<u>20-21</u>		
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....			(\$31,320,606)	\$148,000,000
Capital improvements.....				
<b>TOTAL.....</b>			<b>(\$31,320,606)</b>	<b>\$148,000,000</b>

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 2/7/19			
Approved by: Tony Fulton		Phone: 471-5896			
Date Prepared: 2/6/19					
<u>FY 2019-2020</u>		<u>FY 2020-2021</u>		<u>FY 2021-2022</u>	
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	See below	See below		See below	
Cash Funds					
Federal Funds					
Other Funds					
Total Funds	See below	See below		See below	

LB695 amends Neb. Rev. Stat. § 77-3442 to set a school district’s maximum levy for fiscal years prior to fiscal year (FY) 2020-2021 at \$1.05 per \$100 of taxable value subject to the levy and for School FY 2020-2021 and every School FY thereafter a maximum levy equal to five cents per one hundred dollars of taxable valuation plus a levy rate that will produce an amount equivalent to the local formula contribution when applied to the applicable taxable valuation. Excluded from this maximum levy are amounts levied to pay for special building funds and sinking funds established for projects commenced prior to the effective date of this bill, or for construction, expansion, or alteration of school buildings up to the amount that would be generated by a levy rate equal to the levy rate for a given project for the 2018-2019 fiscal year.

LB695 amends Neb. Rev. Stat. § 77-3446 to set the base limitation for school districts beginning fiscal year 2019-2020 at the inflation rate as certified by the Tax Commissioner. On or before June 1, 2019, on or before November 15, 2019, and on or before November 15 of each year thereafter, the Tax Commissioner shall calculate and certify to the department of education the inflation rate and the local formula contribution inflation rate for the immediately following school fiscal year. The inflation rate for each school fiscal year shall be calculated by subtracting (a) the cost index immediately preceding the most recent cost index from (b) the most recent cost index and dividing the difference by (c) the cost index immediately preceding the most recent cost index. The most recent cost index for each school fiscal year is the most recent cost index available at the time of the certification. If the inflation rate is greater than 2.5%, the inflation rate will equal 2.5%. If the inflation rate is less than 0%, the inflation rate will equal 0%.

LB695 amends the Property Tax Credit Act (Act), requiring the Department of Revenue (Department) to determine the minimum amount necessary to be appropriated to the Property Tax Credit Cash Fund to carry out the requirements of the Act, on or before January 30, 2020 and every January 30 thereafter. The Department is to certify this amount to the Governor and the Appropriations, Revenue, and Education committees of the Legislature. The amount certified will be the greater of the sum of the amounts certified to the Department by the Department of Education to fund increases in state aid to schools or \$224 million. The Appropriations Committee is required to appropriate at least the minimum amount necessary to the Property Tax Credit Cash Fund as certified by the Department. Increases in state aid to be paid to school districts stemming from changes in local formula contribution and foundation aid under TEEOSA are to be paid with monies transferred by the State Treasurer from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Fund.

For fiscal year 2020-21 and each fiscal year thereafter, on or before January 15 of each year, the State Department of Education shall certify to the State Treasurer an estimate of the statewide increase in state aid to be paid to local systems pursuant to the Tax Equity and Educational Opportunities Support Act for the immediately following school fiscal year resulting from (a) changes to the method for calculating the local formula contribution for each local system pursuant to Neb. Rev. Stat. § 79-1015.01 between the 2019-20 school fiscal year and the school fiscal year for which such certification is being made and (b) the inclusion of foundation aid in the calculation of state aid. Then for fiscal year 2020-21 and each fiscal year thereafter, the State Treasurer shall transfer an amount equal to the statewide increase in state aid certified from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Fund to pay such increase in state aid to local systems.

