

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2020-21		FY 2021-22	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	106,252,855		184,372,895	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	106,252,855		184,372,895	

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

LB 974 is the Revenue Committee’s bill that changes: the valuation of property taxes levied by the school districts, levy limits, base limitation, TEEOSA (State Aid) formula, and create transition aid.

For purposes of taxes levied for education purposes:

Residential Property Tax Values:

- Prior to 2020 – Actual Value
- 2020 – 95% of Actual Value
- 2021 – 90% of Actual Value
- 2022 and each year after - 85% of Actual Value

Agriculture & Horticulture Land Values:

- Prior to 2020 – 75% of Actual Value
- 2020 – 65% of Actual Value
- 2021 and each year after – 55% of Actual Value

Base Limitation:

- 2017-18 – 1.5%
- 2018-19 – 1.5%
- 2019-20 – 2.0%
- 2021-22 and each year after – CPI (Inflation Rate released annually in October)

§79-1015.01 will be changed from: Prior to the 2023-24 school year, the Local Effort Rate yield will be used. Starting with the 2023-24 school year, the Local Formula Contribution Rate will be used. LFCR is the local formula contribution inflation rate certified by the Tax Commissioner.

§79-1016.01 currently requires county assessors to certify to the Property Tax Administrator, on or before August 20 of each year, the total taxable value. Beginning in 2022, the total real property growth value by a school district in the county for the current assessment year on forms prescribed by the Tax Commissioner.

Foundation Aid will start with the 2020-21 school year. The amount for year one will be 5% of State revenues certified by the Department of Revenue. Year two will be 10%, year three will be 15% of State revenues, and year three will be a minimum of 15%.

The Averaging Adjustment is removed from the calculation starting with the 2021/22 school year.

Starting with the 2020/21 school year, the Net Option Funding will go from being calculated by a basic funding per formula student amount to the statewide average of the property taxes collected per k-12 students.

§79-1022 states that the date for certification is on or before June 10, 2019, and on or before March 1 of each year thereafter. The date changes from June 10, 2019 to May 1, 2020 for the 2020-21 school year.

Special Building Fund: Lowers the maximum amount available to levy from \$0.14 to \$0.06.

Transition aid is created and is calculated for all the districts that have more than a 1% decrease in their disbursements and transfers from the previous school year. It will be paid out 100% of the difference for year one, 75% of the difference in year two, and 50% of the difference in year three. All percent's paid are over the 1% decrease in disbursements and transfers.

Components of TEEOSA Aid Change	Estimated FY2020-21	Estimated FY2021-22	Est Revised FY2022-23
Estimated TEEOSA October 2019 Joint Meeting	1,085,032,338	1,117,745,818	1,171,820,473
Change allowable growth rate to CPI-U	(18,855,205)	(31,631,077)	(32,379,145)
Foundation Aid 5%, 10%, 15%	52,423,877	112,870,722	202,103,011
Eliminate allocated income tax	(10,753,884)	(13,354,557)	(21,519,142)
Eliminate averaging adjustment	0	(32,903,879)	(28,956,963)
Net Option to Gross Per Pupil Property Taxes	0	(20,161,991)	(35,466,850)
Ag. land to 65% then 55%	21,995,582	46,433,693	38,297,233
Residential, C&I, PS Real, Ag Improvements to 95%, 90%, 85%	56,835,589	122,228,890	180,450,200
Basic Funding aid (minimum 15% vs Foundation Aid)	0	0	4,420,491
Additional TEEOSA Aid	101,645,960	183,481,803	306,948,835
Transition Aid	1,462,407	807,993	0
Total Additional Cost	103,108,367	184,289,795	306,948,835
Estimated TEEOSA with Proposal	1,186,678,299	1,301,227,621	1,478,769,308
Foundation Aid per pupil	\$742.61	\$1,539.89	\$2,416.15

EXPENDITURES:

The Nebraska Department of Revenue estimates that they will have the following expenses:

- FY2020-21 - \$129,800
 - 2 new FTE's need to be added
 - 1 FTE for initial setup
 - 1 FTE to implement the bill
- FY2021-22 - \$83,100
 - 1 FTE that started in 20-21
- FY2022-23 - \$85,000
 - 1 FTE that started in 20-21

The Nebraska Department of Education estimates that they will have the following expenses:

- FY2020-21 – \$106,252,855 is the increase in the amount of total TEEOSA (State Aid) for this year.
 - For the purpose of this Fiscal Note, the Nebraska Department of Education number for “Total Additional Cost” was used as it is actual data along with the Nebraska Department of Revenue’s estimate.
- FY2021-22 - \$184,372,895 is the increase in the amount of total TEEOSA (State Aid) for this year.

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

LB: LB 974 AM: AGENCY/POLT. SUB: Lancaster County Assessor/Register of Deeds

REVIEWED BY: Gary Bush DATE: 1/17/2020 PHONE: (402) 471-4161

COMMENTS: No basis to disagree with estimated provided by the Lancaster County Assessor/Register of Deeds on the costs to implement provisions of LB 974. The General Funds listed are not state General Funds.

- Changes the certification date for 2020/21 aid to May 1, 2020 from the current certification date of March 1, 2020. The date returns to March 1 after 2020.
- Changes how budget authority is calculated for school year 2020/21 to be the lesser of the current three methods used to certify budget authority or actual 2018/19 general fund expenditures grown by the greater of the three methods of budget authority calculation.
- LB 974 changes the maximum levy in the special building fund from fourteen cents to six cents. A school district can increase the building fund levy back to fourteen cents with a vote of their constituents.
- This bill creates transition aid to be calculated for districts that have more than a one percent decrease in their total budget of disbursements and transfers from the previous year. Transition aid will be paid out at one hundred percent of the difference over one percent for the first year, seventy five percent of the difference in year two and fifty percent of the difference in year three.

The first year of LB 974 which applies to the 2020/21 TEEOSA certification would increase the total amount of TEEOSA by just under \$106 million. The reduction in valuations used to calculate the Yield from Local Effort Rate and the creation of Foundation Aid result in increases to the total amount of TEEOSA. A portion of the increase is offset with the change to the inflation factor for the basic allowable growth rate and the net option funding change to property taxes paid per student which both result in lower amounts of TEEOSA.

The second year of LB 974 reduces valuations further and increases the amount of Foundation Aid which both increase the amount of TEEOSA funding. The elimination of the Averaging Adjustment will reduce the total amount of TEEOSA funding, however the amount of the reduction is minimized as needs stabilization kicks in to offset the loss of formula needs. Using 2020/21 information and updating the model for the second year results in \$215 million increase compared to current statute for 2020/21. This estimate only incorporates the changes from the bill and does not include any estimated inflation on valuation or school district spending changes.

There are additional valuation decreases in year 3 for residential/commercial sector and an increase in foundation aid up to 15% of state receipts of personal and corporate income tax and sales/use tax. These changes will increase the total amount of TEEOSA but the amount cannot be determined at this time.

The estimates noted in the breakout section above does not include the transition aid amounts. The transition aid amount could be substantial but it can't be determined at this time.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21 EXPENDITURES</u>	<u>2021-22 EXPENDITURES</u>
	<u>20-21</u>	<u>21-22</u>		
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....			\$106,064,355	\$215,000,000
Capital improvements.....				
TOTAL.....			\$106,064,355	\$215,000,000

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 1/16/2020			
Approved by: Tony Fulton		Phone: 471-5896			
Date Prepared: 1/16/2020					
<u>FY 2020-2021</u>		<u>FY 2021-2022</u>		<u>FY 2022-2023</u>	
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$ 188,500	\$ 83,100		\$ 85,000	
Cash Funds					
Federal Funds					
Other Funds					
Total Funds	\$ 188,500	\$ 83,100		\$ 85,000	

LB 974 amends a number of statutes:

Section 1 amends Neb. Rev. Stat. § 77-201 to reduce the value of residential and commercial/industrial real property for taxes levied by school districts and multiple-district schools as follows:

- For tax year 2020, the value will be reduced from 100% to 95% of actual value;
- For tax year 2021, the value will be reduced from 95% to 90% of actual value; and
- For tax year 2022 and thereafter, the value will be reduced from 90% to 85% of actual value.

The value of agricultural and horticultural land is also reduced for taxes levied by school districts and multiple-district as follows:

- For tax year 2020, the value will be reduced from 75% to 65% of actual value; and
- For tax year 2021 and thereafter, the value will be reduced from 65% to 55% of actual value.

Taxes levied by school districts and multiple-district school systems are defined to be all real or personal property taxes levied by a school district or multiple-district school system, regardless of the purpose of the levy.

Section 2 amends Neb. Rev. Stat. § 77-1391 to change the wording from actual value to assessed value of historically significant property for the eight years following issuance of the final certificate of rehabilitation.

Section 3 amends Neb. Rev. Stat. § 77-3442 to set school districts’ levy authority beginning in fiscal year 2023-24 at six cents per \$100 of taxable value, plus a levy rate which generates an amount equal to the local formula contribution. With two-thirds vote of the school board, excluded from this levy limitation is an amount up to 75% of any positive difference when the amount of aid actually certified is less than the amount of aid estimated in January of the fiscal year. Also excluded are amounts levied to pay for special building funds that were commenced prior to this bill, up to an amount equal to the amount that would be generated by a levy rate equal to the levy rate for the project for the 2019-20 fiscal year.

Section 4 amends Neb. Rev. Stat. § 77-3446 to change the base limitation for school districts from two percent for school fiscal year 2019-20 to the inflation rate for the school fiscal year 2020-21 and each school fiscal year thereafter. The rate of inflation is to be certified by the Tax Commissioner.

Section 5 amends Neb. Rev. Stat. § 77-5023 to set the statewide equalization level of value acceptable range of agricultural and horticultural land, and agricultural and horticultural land receiving special valuation for taxes levied by school districts and multiple-district schools as follows:

- For tax year 2020, the level of value for agricultural and horticultural land will be reduced (from 69% to 75%) to 59% to 65% of actual value; and
- For tax year 2021 and thereafter, the level of value for agricultural and horticultural land will be 49% to 55% of actual value.

For the taxes levied by any other political subdivision, the level of value acceptable range for agricultural and horticultural land, and agricultural and horticultural land receiving special valuation remains at 69% to 75%.

The statewide equalization level of value acceptable range of residential and commercial/Industrial real property for taxes levied by school districts and multiple-district schools is as follows:

- For tax year 2020, the level of value will be reduced (92% to 100%) to 87% to 95% of actual value;
- For tax year 2021, the level of value will be 82% to 90% of actual value; and
- For tax year 2022 and thereafter, the level of value will be 77% to 85% of actual value.

For the taxes levied by any other political subdivision, the level of value acceptable range for residential and commercial/Industrial real property remains at 92% to 100%.

LB 974 also amends Neb. Rev. Stat. § 79-1016 to require county assessors to certify to the Property Tax Administrator, on or before August 20 of each year, the total taxable value and, beginning in 2022, the total real property growth value by a school district in the county for the current assessment year on forms prescribed by the Tax Commissioner.

The Property Tax Administrator will compute and certify, on or before August 15, 2020, October 10, 2020, and each October 10 thereafter, the adjusted valuation to be used in calculating equalization aid for each class of property, and beginning in 2022, the total real property growth value in each school district and local system.

The Tax Commissioner is authorized to adopt and promulgate rules for the determination of total real property growth value for state aid purposes.

Section 9 of LB 974 requires the Tax Commissioner to certify by April 15, 2020, the following amounts of taxes for use by the State Department of Education in calculating aid for school fiscal year 2020-21:

- The net income tax collection for the tax year ending or deemed to have ended on December 31, 2018;
- The net corporate income tax collections for the tax year ending or deemed to have ended on December 31, 2018; and
- The net state sales and use tax collections for calendar year 2018.

On or before November 15, 2020 and on or before November 15 of each year thereafter, the Tax Commissioner must certify the following amount of taxes for use by the State Department of Education in calculating aid for the following school fiscal year:

- The net income tax collections for the most recently completed tax year;
- The net corporate income tax collections for the most recent completed tax year; and
- The net sales and use tax collections for the most recently completed calendar year.

The State Department of Education will use a ratio percentage of the above amount, in part, to calculate the amount of foundation aid to be paid to each local system for the school fiscal year. The amount of foundation aid will also be included in the local system formula resources beginning in school fiscal year 2020-21 as provided in Neb. Rev. Stat. § 79-1017.01, as amended by LB 974, and is used to determine the amount to be distributed to each local system for the ensuing school fiscal year under amended Neb. Rev. Stat. § 79-1022 beginning in school fiscal year 2020-21, as amended by LB 974.

On or before April 15, 2020, on or before November 15, 2020, and on or before November 15 of each year thereafter, the Tax Commissioner must calculate and certify the inflation rate and, beginning in 2020, the local formula contribution inflation rate for the immediately following school fiscal year.

The inflation rate is calculated by (a) subtracting the cost index immediately preceding the most recent cost index from the most recent cost index and (b) dividing the difference by the cost index immediately preceding the most recent cost index. If the calculated inflation rate is greater than 2.5%, the inflation rate will equal 2.5%; and if the calculated inflation rate is less than 0%, the inflation rate will equal 0%.

The cost index means Consumer Price Index for All Urban Consumers – U.S. City Average – Not Seasonally Adjusted, as prepared by the U.S. Department of Labor, Bureau of Labor Statistics, and released in October of each year. The most recent cost index for each school fiscal year is the most recent cost index available at the time of the certification.

The local formula contribution inflation rate will equal the calculated inflation rate. The amount for the local formula contribution inflation rate, however, is not subject to an adjustment to 2.5%, if the calculated inflation rate is over 2.5%; but is subject to an adjustment to 0%, if the calculated inflation rate is below 0%. The State Department of Education will use the local formula contribution inflation rate to calculate the local formula contribution for each local system under LB 947 amendments to Neb. Rev. Stat. § 79-1015.01 for school fiscal years 2023-24 and each school fiscal year thereafter.

Section 15 amends Neb. Rev. Stat. § 79-1016 to, beginning in 2022, requires county assessors to certify to the Property tax Administrator the total taxable value and the total real property growth value by school district in the county. It also requires the Property Tax Administrator to, on or before April 15, 2020, October 10, 2020, and each October 10 thereafter, determine and certify the adjusted valuation to be used in calculating aid for each class of property, and beginning in 2022, the total real property growth value in each school district and local system. The Tax Commissioner is authorized to adopt and promulgate rules for the determination of total real property growth value.

It further defines state aid value to mean:

- For residential and commercial/industrial real property:
 - For school fiscal years prior to 2020-21, 96% of actual value;
 - For school fiscal year 2020-21, 91% of actual value;
 - For school fiscal year 2021-22, 86% of actual value; and
 - For school fiscal year 2022-23 and thereafter, 81% of actual value.
- For agricultural and horticultural land and agricultural and horticultural land receiving special value:
 - For school fiscal years prior to 2020-21, 72% of actual value;
 - For school fiscal year 2020-21, 62% of actual value; and
 - For school fiscal year 2021-22 and thereafter, 52% of actual value.

Section 28 amends Neb. Rev. Stat. § 79-10,120 to limit the levy authority of a school board for purposes of special funds established after the effective date of the bill at six cents per \$100 in valuation for all purposes except for erecting, purchasing, or leasing a new school building or addition to a school building. For the purpose of erecting, purchasing, or leasing a new school building or addition to a school building, the levy authority is fourteen cents per \$100 but may only be imposed after a vote of the people of the school district in a statewide primary or general election.

LB 974 contains an emergency clause and becomes law upon enactment.

LB 974 will have an effect on TEEOSA, which may have a corresponding impact on General Fund expenditures.

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2020

LB⁽¹⁾ 974

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Lancaster County Assessor/Register of Deeds

Prepared by: ⁽³⁾ Scott Gaines Date Prepared: ⁽⁴⁾ 1/15/2020 Phone: ⁽⁵⁾ 402-441-6580

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2020-21</u>		<u>FY 2021-22</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$5,000			
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$5,000			

Explanation of Estimate:

We estimate one-time software modification costs of approximately \$5,000 to accommodate LB974.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21</u>	<u>2021-22</u>
	<u>20-21</u>	<u>21-22</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				