

Calculation Revision

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2022-23		FY 2023-24	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$323,078,309	(\$172,228,100)	\$414,499,992	(\$347,773,800)
CASH FUNDS	\$172,228,100	\$172,228,100	\$347,773,800	\$347,773,800
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$495,306,409	\$0	\$762,273,792	\$0

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

LB890 amends several sections pertaining to the Tax Equity & Educational Opportunities Support Act (TEEOSA), creates the Education Stabilization Base Act (ESBA), eliminates provisions relating to Community Achievement Plans (CAP), repeals §79-2122, eliminates obsolete provisions, harmonizes other provisions & carries an emergency clause.

- ESBA funding:
 - FY2022-23 - \$550 per student
 - FY2023-24 - \$1,100 per student
 - FY2024-25 & beyond – \$1,100 increased by Basic Allowable Growth Rate (BAGR)
- Early Childhood formula students increases from 60% to 100%
- Resident Individual Income Tax allocation increase from 2.23%:
 - FY2022-23 – 10%
 - FY2023-24 & beyond– 20%
- Hold Harmless, equal to the amount, for FY2022-23 & FY 2023-24 if State Aid is less than FY2021-22 aid amount
- Lower the Local Effort Rate (LER) from \$1.00 to:
 - FY2022-23 – \$0.85
 - FY2023-24 & beyond– \$0.75
- Requires the Nebraska Department of Education (NDE) to calculate Projected General Fund Tax Asking amount
- School Districts can exceed their new levy amount with a two-thirds majority vote of their school board
- Creates State & Local Spending Authority which calculates the district’s budget authority with their exclusions & special education (SPED) expenditures
- Creates State & Local Spending Authority Aid Adjustment to reduce equalization aid if the district’s Formula Needs & Additional Revenue Receipts exceed their Total State & Local Spending Authority

Starting December 15, 2026 & every 4 years thereafter, the Education Committee of the Legislature will submit a report & recommendations regarding TEEOSA. The Education Committee may receive assistance from NDE, the Property Tax Administrator, the Tax Commissioner or their designee, the Legislative Fiscal Analyst or the Budget Division of the Department of Administrative Services (DAS). The chairperson of the Education or Appropriations Committee may request the report on a more frequent basis. The report will include:

- Analysis on the effectiveness of TEEOSA in meeting the intent of §79-1002
- Summary of changes made to TEEOSA since the enactment of this bill & changes made since the last report to the Legislature
- Breakdown of the annual funding from the Insurance Tax Fund, the ESBA Trust Fund, & General Fund
- Financial summary of the ESBA Trust Fund
- Review of property valuation fluctuations
- A year-over-year graphical representation of:
 - LER - §79-1015.01
 - Allocated Income Tax - §79-1005.01
 - BAGR - §79-1025
 - Maximum Levy for General Fund budgets - §77-3442
 - Per Student Equalization Stabilization Base
 - Brief narrative of any extenuating circumstances that may have affected the districts
 - Any proposed statutory changes to the calculations

The priorities of changes to TEEOSA should the Legislature find them necessary are:

- Increase the ESBA to be paid for each formula student by no greater than the necessary amount to cover the deficit not exceeding the amount available for this purpose for one year
- Adjust the LER somewhere between \$0.75 to \$0.85
- Adjust the Base Limitation

EXPENDITURES (REVISED):

All expenditures go towards aid to the school districts but General Funds will need to be utilized if ESBA funding does not cover the entire calculated amount of TEEOSA aid for that fiscal year. The Legislative Fiscal Office has revised the estimates of the impact to TEEOSA for FY 2023-24.

REVENUE (REVISED):

LB 890 creates the Education Stabilization Base Aid Trust Fund. The fund will consist of money transferred to the fund, & all money will be held in the trust solely for the purpose of paying state aid pursuant to the TEEOSA calculation. Any excess money in the fund will be reserved for future state aid payments.

The Legislative Fiscal Office has calculated the need for the State Treasurer to transfer \$172,228,100 for FY 2022-23 & \$347,773,800 for FY2023-24 from the General Fund to the Education Stabilization Base Aid Trust Fund due to the bill's provisions requiring this aid to be paid from such fund.

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

LB: 890	AM:	AGENCY/POLT. SUB: Nebraska Department of Revenue
REVIEWED BY: Gary Bush	DATE: 1/20/22	PHONE: (402) 471-4161
COMMENTS: No basis to disagree with the estimate provide for the impact to the agency to implement the provisions of the bill.		

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

LB: 890	AM:	AGENCY/POLT. SUB: Nebraska Department of Education
REVIEWED BY: Gary Bush	DATE: 1/19/22	PHONE: (402) 471-4161
COMMENTS: No basis to disagree with the estimate provide of the bill's impact.		

State Agency Estimate

State Agency Name: Department of Revenue

Date Due LFO:

Approved by: Tony Fulton

Date Prepared: 1/20/2022

Phone: 471-5896

	FY 2022-2023		FY 2023-2024		FY 2024-2025	
	<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	See Below	See Below	See Below
Cash Funds		See Below		See Below		See Below
Federal Funds						
Other Funds						
Total Funds	See Below	See Below	See Below	See Below	See Below	See Below

LB 890 would revise the Tax Equity and Educational Opportunities Support Act (TEEOSA) and provide increased state aid to schools. Generally, the bill would:

- Include 100% of early childhood education students in the formula students beginning in FY 2022-23, increased from 60%;
- Increase the percent of resident individual income tax allocation from 2.23% to 10% in FY 2022-23 and 20% for FY 2023-2024 and thereafter;
- Provide education stabilization base aid of \$550 per formula student for all school districts and multiple school systems in FY 2022-23, \$1,100 in FY 2023-24, and for years thereafter, the previous year’s amount increased by the basic allowable growth rate pursuant to § 79-1025;
- Creates the Education Stabilization Base Aid Trust Fund consisting of money transferred to this Fund by the Legislature.
- Provide a hold harmless adjustment for FY 2022-23 and 2023-24 only, equal to the amount, if any, that current year state aid for the school is less than the state aid was for FY 2021-22;
- Decease the local effort rate for calculating equalization aid from the levy limit minus 5 cents to the levy limit minus 10 cents for FY 2022 and 20 cents for FY 2023-24 and each year thereafter;
- Provide a total state and local spending authority aid adjustment if the total resources are less than the total state and local spending authority; and allow the school district or system to levy more than the levy limit to meet the total state and local spending authority amount.

Section 28 of LB 890 requires the Education Committee to publish a report every four years on the effectiveness of the TEEOSA formula, including a review of property valuation fluctuations by sector and a narrative of factors that impacted revenues. The Department of Education, the Property Tax Administrator, the Tax Commissioner or the Tax Commissioner’s designee, the Legislative Fiscal Analyst, or the budget division of the Department of Administrative Services may assist the committee in preparing this report.

Major Objects of Expenditure

<u>Class Code</u>	<u>Classification Title</u>	<u>22-23 FTE</u>	<u>23-24 FTE</u>	<u>24-25 FTE</u>	<u>22-23 Expenditures</u>	<u>23-24 Expenditures</u>	<u>24-25 Expenditures</u>
Benefits.....							
Operating Costs.....							
Travel.....							
Capital Outlay.....							
Capital Improvements.....							
Total.....							

LB 890 contains an emergency clause and becomes law upon enactment.

There are minimal costs to DOR to implement LB 890.

LB 890 significantly alters TEEOSA, which will have a corresponding impact on General Fund expenditures as detailed by the Department of Education. The General Fund will also be used to supplement any shortfall in the Education Stabilization Base Aid Trust Fund as prescribed by LB 890.

Please complete ALL (5) blanks in the first three lines.

2022

LB⁽¹⁾ 890

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Department of Education

Prepared by: ⁽³⁾ Bryce Wilson Date Prepared: ⁽⁴⁾ 1/18/22 Phone: ⁽⁵⁾ 402-471-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2022-23</u>		<u>FY 2023-24</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$495,543,113</u>	<u> </u>	<u>\$730,000,000</u>	<u> </u>
CASH FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FEDERAL FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OTHER FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNDS	<u>\$495,543,113</u>	<u> </u>	<u>\$730,000,000</u>	<u> </u>

Explanation of Estimate:

LB 890 increases the amount of TEEOSA aid going out to schools by making the following changes:

- Creates Education Stabilization Base Aid (ESBA) which is a per student funding amount that starts out at \$550 for 2022/23 and increases to \$1,100 for 23/24. For years after 23/24 the amount increases by the basic allowable growth rate each year.
- Increases the income tax rebate from 2.23% to 10% for 22/23 and to 20% for 23/24 and years thereafter.
- Increases the weight of early childhood formula students from 60% to 100%.
- Lowers the local effort rate (LER) from \$1.00 to \$.85 for 22/23 and to \$.75 for 23/24 and years thereafter.
- Eliminates net option funding.
- Eliminates the community achievement plan allowance/aid.
- Creates State and Local Spending Authority which is the budget authority for a district plus exclusion plus special education expenditures.
- Creates the State and Local Spending Authority Aid Adjustment which reduces equalization aid if a district's formula needs plus Additional Revenue Receipts exceed Total State and Local Spending Authority.
- Includes a Hold Harmless provision for two years so that at a minimum a school district cannot receive less than their 2021/22 TEEOSA amount.
- Requires NDE to calculate a Projected General Fund Tax Asking amount.

LB 890 identifies the methods and order of changes that should be made if the Legislature needs to cut the amount of aid in future years as follows:

- Additional proceeds in the ESBA trust fund should be used first by increasing the ESBA amount.
- The LER can be adjusted between \$.75 to \$.85.
- The base limitation can be adjusted.

In addition to the TEEOSA changes this bill also allows districts to exceed the new maximum levy amount with a 2/3 majority vote of the school board.

Last, LB 890 requires the Education Committee to report by December 15, 2026 and every four years thereafter on the effectiveness of TEEOSA. Several specific components are required to be reported on as part of this report and requires the assistance of the Department of Education to prepare the report.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2022-23</u>	<u>2023-24</u>
	<u>22-23</u>	<u>23-24</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....			\$495,543,113	\$730,000,000
Capital improvements.....				
TOTAL.....			\$495,543,113	\$730,000,000