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DATE PREPARED: January 25, 2011
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LB 531

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2011-12		FY 2012-13	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 531 applies to school district budget reserves. The bill reduces the allowable reserve percentage for school district budgets. The allowable percentage is based upon the average daily membership of a district. The reserve percentages are changed as follows:

Average Daily Membership of District	Current Law Reserve %	LB 531 Reserve %	Change in Reserve %
0 - 471 Students	45%	30%	(15%)
471.01 – 3,044 Students	35%	25%	(10%)
3,044.01 – 10,000 Students	25%	15%	(10%)
10,000.01 + Students	20%	15%	(5%)

The bill also provides that any reductions in school district budgets made to comply with budget limitations in the Tax Equity and Educational Opportunities Support Act are to affect classroom expenses as a last resort.

Data on school district budget reserves for FY2010-11 shows that 94 of 253 school districts would have to reduce their budget reserves pursuant to the bill, if the bill was in effect for the current year. Budget reserves of these 94 districts are approximately \$71 million in excess of the allowable reserve percentages required by the bill. Collectively, the average statewide budget reserve percentage for all school districts was 18.5% in FY2010-11. If the bill had been in effect, the statewide average would decrease to 16.3%.

Districts with reserves in excess of the reserve requirements in LB 531 will need to spend down their reserves to the specified percentage in FY2011-12. The spend down of reserves may preclude an increase in property tax rates needed to offset decreases in other school district resources.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	Matthew Eash	DATE	1/31/11	PHONE	471-2526
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COMMENTS

DEPARTMENT OF EDUCATION: LB 531's proposed reductions to maximum budgeted reserves would cause only a few school districts to reduce their current reserve allocations significantly. By itself, this would have no general fund impact on TEEOSA aid. However, any amount that districts are forced to reduce from reserves may generate additional general fund operating expenditures (or additional spending from depreciation and employee benefit funds) in the first years of implementation, which would then result in additional state General Fund aid to schools two years later.

Ultimately, school districts may eliminate the excess reserves from their budgets altogether after they consider new property tax goals and analyze total school resources impacted by this legislation, although nothing in this legislation requires a spending reduction.

It should be noted that since early 2009, school districts have been strongly encouraged by the Governor and Department of Education to save as much as possible to prepare for the "funding cliff" created by non-replacement of \$234 million in Stabilization Funds (SFSF) of the American Recovery and Reinvestment Act (ARRA) and the additional \$59 million from the Education Jobs Fund. Growth in school reserves in FY2009-10 and FY2010-11 probably reflect this guidance, and reserves are likely to decline (notwithstanding this legislation) when the impact of the "funding cliff" is realized in FY 2011-12 and FY2012-13.

LB 531 FISCAL NOTE

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 LEGISLATIVE FISCAL

State Agency OR Political Subdivision Name: NDE/School Finance & Organization Services

Prepared by: Inbody, Bergquist, Eret Date Prepared: 1-26-2011 Phone: 1-4320

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2011-12</u>		<u>FY 2012-13</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>

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

This bill would lower the allowable reserve percentage for all public school districts. The table below reflects the current allowable reserve percentages and the proposed changes.

<u>Current Allowable Reserve Percentages</u>			<u>Proposed Allowable Reserve Percentage</u>
<u>Average Daily Membership of District</u>	<u>Allowable Reserve Percentage</u>		
0 - 471	45		30
471.01 - 3,044	35		25
3,044.01 - 10,000	25		15
10,000.01 and over	20		15

MAJOR OBJECTS OF EXPENDITURES

Personal Services: _____

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2011-12</u>	<u>2012-13</u>
	<u>11-12</u>	<u>12-13</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefit	_____	_____	_____	_____
Operating	_____	_____	_____	_____
Travel	_____	_____	_____	_____
Capital outlay	_____	_____	_____	_____
Aid	_____	_____	_____	_____
Capital improvements	_____	_____	_____	_____
TOTAL	_____	_____	<u>0</u>	<u>0</u>

This bill also provides that any reductions in a school district budget, in order to comply with the expenditure limitation, shall affect classroom expenses only as a last resort. Reducing the allowable reserve percentage may lower the amount of property taxes required by a school district and it may also have a negative impact on the cash flow position of a school district during the school fiscal year.

Fiscal Impact:

To NDE: There would be no fiscal impact to the Department of Education.

To Political Subdivision: A reduction in the property taxes required by a school district and the affect this reduction may have on the cash flow position for school district is unknown at this time. Based on the 2010/11 LC-2 information, four school districts were at the maximum allowable reserves. Two of the school districts had a 25% allowable reserve percentage, one school district had a 45% allowable reserve percentage and one school district had a 35% allowable reserve percentage. A breakdown for all school districts in 2010/11, by allowable reserve percentage, is shown in the table printed below.

Allowable Reserve %	Number of Schools	Schools \geq 90.00% of Maximum Reserves
45	157	40
35	78	12
25	13	4
20	3	2

This Bill states that reductions to classroom expenses are to be avoided when district budgets are developed for the upcoming year in order to comply with the expenditure limitation. Schools need a specific definition of “classroom expenses.”