PREPARED BY: Sandy Sostad
DATE PREPARED: January 17, 2007
PHONE: 471-0054

LB 241

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *

	FY 2007-08		FY 2008-09	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	See Below		$583,700,000	
CASH FUNDS	See Below			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			$583,700,000	

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

LB 241 repeals the Tax Equity and Educational Opportunities Support Act (TEEOSA) and budget lids for school districts. The bill provides that teachers in public schools and educational service units (ESU's) will become state employees. The bill also decreases the levy limit for school districts from $1.05 to $1.00. Preliminary data from the 2005-06 Annual Financial Report for School Districts and data from the 2004-05 AFR for ESU's is the basis of estimates used on this fiscal note. The following sections of the bill have a fiscal impact for the state and/or political subdivisions:

Section 3 shifts the use of insurance premium tax receipts from TEEOSA to the payment of salaries and benefits for teachers. Insurance premium tax receipts for schools totaled $17.1 million in 2005-06, but will average about $14.5 to $15.5 million in the future.

Section 5 decreases the levy limit for school districts from $1.05 to $1.00 and for learning communities from $1.02 to $.97 beginning in 2008-09. The $.05 decrease in levy authority for school districts may decrease property taxes levied statewide by an estimated $71.5 million in 2008-09.

Sections 15-16 establish a teachers bargaining unit in 2007-08. Bargaining is to begin in 2008-09. The fiscal note prepared by the Department of Administrative Services indicates the bill will result in substantial increases in workload and infrastructure costs to administer benefits and bargaining for 25,000 teachers. The actual fiscal impact cannot be determined without further study. The major areas impacted include employee relations, state personnel, risk management, accounting, and the office of the Chief Information Officer. There will be a need for additional staff and infrastructure in all of these areas.

Sections 25 & 28 provide that the state will pay the employer share of retirement benefits for teachers in schools and ESU's. The Public Employee Retirement Board indicates there will be increased cash fund expenditures for administrative costs and perhaps programming costs for the employer reporting module of their computer system. The amount of increase is unknown until a technical analysis is completed.

Section 40 eliminates intent language providing for the aid appropriation for the high ability learner program to grow annually by the allowable growth rate. This will reduce state aid expenditures by about $116,000 in 2008-09.

Sections 43 & 44 eliminate state aid to ESU's for core services beginning in 2008-09. This will decrease state aid by approximately $8.7 million, based upon requested aid for FY09.

Sections 13, 17, 18, 39, 41 & 42 provide that all teachers in public schools and ESU's will become state employees on July 1, 2008. The state will be responsible for the payment of salaries and benefits, including retirement, health and disability insurance, and retirement incentives and staff development assistance. Schools and ESU's will continue to make hiring and staffing decisions. The potential exists for increased personnel expenditures by schools and ESU's if decisions regarding staffing are made at the local level and payments for personnel costs are made by the state.

The estimated fiscal impact of the state takeover of teacher salaries and benefits is calculated as follows based upon inflating data from AFR reports for schools and ESU's by the average growth rates in salaries and benefits for the past five years.

	Estimated 2005-06	Estimated 2008-09
School District Teacher Salaries	895,000,000	992,300,000
Substitute School District Salaries	23,500,000	29,700,000
School District Teacher Benefits	303,100,000	368,200,000
ESU Teacher Salaries and Benefits	43,000,000	49,100,000
Estimated Salary and Benefits to be Paid by the State	1,265,500,000	1,439,300,000
LESS:		
TEEOSA State Aid	683,500,000	832,100,000
Insurance Premium Taxes	17,100,000	14,800,000
ESU Aid for Core Services	8,200,000	8,700,000
Cost of Repealed State Aid Programs	708,800,000	855,600,000
ESTIMATED NET GENERAL FUND FISCAL IMPACT	$ 556,700,000	583,700,000

As previously mentioned the bill reduces the levy limit for school districts by $.05 in 2008-09, or an estimated $71.5 million decrease in property taxes levied statewide. It is assumed an increase of state aid in the amount of $583.7 million to schools and ESU's will result in a greater than $71.5 million decrease in property taxes levied statewide by school districts and ESU's, but the actual amount will depend upon spending decisions by local entities.

DEPARTMENT OF ADMINISTRATIVE SERVICES

REVIEWED BY	William Scheidler	DATE 1/19/07	PHONE 471-2526

COMMENTS

DEPARTMENT OF ADMINISTRATIVE SERVICES: Preliminary FY 2005-06 data from the Annual Financial Reports of school districts and ESU's indicate that compensation for teachers directly involved in instruction was approximately $990 million, and total benefit costs represent an additional 32 percent or approximately $315 million. Assuming just 5% wage/benefit growth from FY 2005-06 to FY 2006-07, implies the total cost of state funding for teachers in local public schools and ESUs would have represented nearly $1.4 billion in costs for FY 2006-07 or roughly double the State General Fund cost of TEEOSA in this current aid year (FY 2006-07).

LB 241's adjustment of the maximum levy cap to $1.00 would only reduce revenue raising capacity of schools by $60 million in the current aid year. . . allowing local school districts approximately $640 million in additional levying authority ($700 million in reduced annual spending obligations less $60 million in property tax yield).