

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

| <b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates) |                   |         |                   |         |
|---|-------------------|---------|-------------------|---------|
|   | <b>FY 2018-19</b> |         | <b>FY 2019-20</b> |         |
|   | EXPENDITURES      | REVENUE | EXPENDITURES      | REVENUE |
| GENERAL FUNDS   | \$199,151         |         |                   |         |
| CASH FUNDS  |                   |         |                   |         |
| FEDERAL FUNDS   |                   |         |                   |         |
| OTHER FUNDS   |                   |         |                   |         |
| <b>TOTAL FUNDS</b>  | \$199,151         |         |                   |         |

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

LB 911 is the School District Local Option Income Surtax Act. The bill allows school boards to impose a local option income tax surtax rate of up to 20% which cannot exceed five years in duration. The surtax is equal to an individual's state income tax liability less nonrefundable credits multiplied by the rate chosen by the school board.

The surtax may be imposed if approved by a majority of voters in a school district at an election. The tax revenue may be used to reduce property taxes or for building construction, remodeling and site acquisition. Tax proceeds that are to be used to reduce property taxes are placed in the general fund of the school district and proceeds to be used for buildings and sites are deposited in a special building fund. The imposition of a surtax does not increase the budget authority for a school district.

The State Department of Education (NDE) may adopt rules to carry out the act. If a vote to impose a surtax is acceptable, the school district shall notify the Tax Commissioner by August 1 of the rate to be imposed for the following tax year. The proceeds of the tax are allocated to school districts by the Tax Commissioner.

Impact for NDE: NDE may develop rules to carry out the provisions of the act. The department has sufficient staff and resources for rule development.

Impact for the Department of Revenue: There will be an estimated \$199,151 one-time increase in general fund expenditures for computer programming to add a line to tax forms and for web development costs to add the corresponding line to the web based online tax filing system.

Fiscal Impact for School Districts: The fiscal impact of the bill depends upon whether school districts opt to impose a surtax, the rate of surtax imposed and the use of the proceeds. It is not possible to determine what decisions will be made at the local level pursuant to the bill. If districts opt to impose a surtax for building and site needs, there will be increased expenditures for these purposes which may offset expenditures that would have been made from other sources of revenue.

The degree to which a 20% local option income tax surtax will offset school property taxes varies by district depending upon the income tax liability of residents and amount of property taxes levied for school purposes. Imposition of the maximum 20% income tax surtax statewide would lower school district property taxes by 15.6%. If a 20% surtax is imposed, the largest impact for a school district would be a 35.3% reduction in property taxes levied for schools and the smallest impact would be a 1.9% reduction in taxes levied.

| <b>ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY &amp; POLT. SUB. RESPONSE</b>   |       |   |        |                |
|--|-------|---|--------|----------------|
| LB: 911  | AM:   | AGENCY/POLT. SUB: Department of Education |        |                |
| REVIEWED BY: Gary Bush   | DATE: | 01/23/18                                  | PHONE: | (402) 471-4161 |
| COMMENTS: No basis to disagree with estimate of cost to the department. It is unknown what the impact would be to the TEEOSA School Aid formula as any revenue received by the school district would need to be counted as a resource in the aid formula. The bill does require a reduction in property taxes levied by a school district. |       |   |        |                |

|   |                |   |  |
|---|----------------|---|--|
| ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE                               |                |   |  |
| LB: 911   | AM:            | AGENCY/POLT. SUB: Department of Revenue               |  |
| REVIEWED BY: Gary Bush  | DATE: 02/12/18 | PHONE: <a href="tel:(402)471-4161">(402) 471-4161</a> |  |
| COMMENTS: No basis to disagree with the estimate provided by the department. The estimate appears to be reasonable. |                |   |  |

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

**2018**

**LB<sup>(1)</sup> 911**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Dept of Education

Prepared by: <sup>(3)</sup> Bryce Wilson Date Prepared: <sup>(4)</sup> 1/12/18 Phone: <sup>(5)</sup> 402-471-4320

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

|               | <u>FY 2018-19</u>   |                | <u>FY 2019-20</u>   |                |
|---------------|---------------------|----------------|---------------------|----------------|
|               | <u>EXPENDITURES</u> | <u>REVENUE</u> | <u>EXPENDITURES</u> | <u>REVENUE</u> |
| GENERAL FUNDS | _____               | _____          | _____               | _____          |
| CASH FUNDS    | _____               | _____          | _____               | _____          |
| FEDERAL FUNDS | _____               | _____          | _____               | _____          |
| OTHER FUNDS   | _____               | _____          | _____               | _____          |
| TOTAL FUNDS   | =====               | =====          | =====               | =====          |

**Explanation of Estimate:**

LB 911 Creates the Local Option Income Surtax Act. The surtax act allows schools, with a majority vote of the districts registered voters, to pass a surtax up to twenty percent of each individuals income tax liability minus nonrefundable credits for up to a maximum of five years. The surtax can be used for property tax relief or building construction, remodeling and site acquisitions. Proceeds from the surtax go to the General Fund if the proceeds are being used for property tax relief and to the special building fund if being used for building construction, remodeling or site acquisitions.

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

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

| <u>POSITION TITLE</u>     | <u>NUMBER OF POSITIONS</u> |              | <u>2018-19</u>      | <u>2019-20</u>      |
|---------------------------|----------------------------|--------------|---------------------|---------------------|
|                           | <u>18-19</u>               | <u>19-20</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| _____                     | _____                      | _____        | _____               | _____               |
| _____                     | _____                      | _____        | _____               | _____               |
| Benefits.....             | _____                      | _____        | _____               | _____               |
| Operating.....            | _____                      | _____        | _____               | _____               |
| Travel.....               | _____                      | _____        | _____               | _____               |
| Capital outlay.....       | _____                      | _____        | _____               | _____               |
| Aid.....                  | _____                      | _____        | _____               | _____               |
| Capital improvements..... | _____                      | _____        | _____               | _____               |
| TOTAL.....                | _____                      | _____        | _____               | _____               |

**State Agency Estimate**

|  |                     |                         |                     |                |                     |                |
|--|---------------------|-------------------------|---------------------|----------------|---------------------|----------------|
| State Agency Name: Department of Revenue |                     | Date Due LFA: 2/12/2018 |                     |                |                     |                |
| Approved by: Tony Fulton                 |                     | Phone: 471-5896         |                     |                |                     |                |
| Date Prepared: 2/9/2018                  |                     |                         |                     |                |                     |                |
|  | <b>FY 2018-2019</b> |                         | <b>FY 2019-2020</b> |                | <b>FY 2020-2021</b> |                |
|  | <u>Expenditures</u> | <u>Revenue</u>          | <u>Expenditures</u> | <u>Revenue</u> | <u>Expenditures</u> | <u>Revenue</u> |
| General Funds                            | \$199,151           | \$0                     | \$0                 | \$0            | \$0                 | \$0            |
| Cash Funds                               |                     |                         |                     |                |                     |                |
| Federal Funds                            |                     |                         |                     |                |                     |                |
| Other Funds                              |                     |                         |                     |                |                     |                |
| <b>Total Funds</b>                       | <b>\$199,151</b>    | <b>\$0</b>              | <b>\$0</b>          | <b>\$0</b>     | <b>\$0</b>          | <b>\$0</b>     |

LB 911 would adopt the School District Local Option Income Surtax Act. The Act would allow school districts to levy an income tax surcharge for either property tax reduction or building construction, remodeling or site acquisition. The surtax would be imposed only on individuals who are residents of the school district, based upon the district designated on the income tax form. To be levied, the surtax must be proposed to the voters in the school district by resolution of the school board. The question would be provided to the county clerk or election commissioner at least 30 days before the election (20 if it is a special election), and the ballot question must state the rate of tax (based on a percent of tax liability after refundable credits), its duration, and its purpose. The surtax cannot exceed 20% of tax liability after nonrefundable credits.

If the voters approve imposition of a surtax, the Tax Commissioner would collect the surtax along with the income tax and modify the income tax and withholding forms accordingly. The Tax Commissioner is also to determine the total local option income surtax "owed" to each school district and distribute those amounts to the applicable school districts on or before July 1 of each year. School districts are to notify the Tax Commissioner of any imposition of the surtax by August 1 of the previous year.

Adopting a surtax does not increase the school district's budget authority. Proceeds for property tax reduction are deposited in the general fund and proceeds for capital construction are deposited in the building fund. A local option income surtax may be rescinded by vote using the same procedure as adoption. The Department is given regulation authority.

The operative date for LB 911 is 3 months after enactment.

It is estimated that this bill will have no impact on General Fund revenues.

The Department estimates a one-time OCIO cost of \$199,151 for mainframe development cost to add a line to the 1040N, addition of a line to the 941, and for web development costs for adding the corresponding line to the web based NebFile online filing system.

| <b>Major Objects of Expenditure</b> |                             |                      |                      |                      |                               |                               |                               |  |
|-------------------------------------|-----------------------------|----------------------|----------------------|----------------------|-------------------------------|-------------------------------|-------------------------------|--|
| <u>Class Code</u>                   | <u>Classification Title</u> | <u>18-19<br/>FTE</u> | <u>19-20<br/>FTE</u> | <u>20-21<br/>FTE</u> | <u>18-19<br/>Expenditures</u> | <u>19-20<br/>Expenditures</u> | <u>20-21<br/>Expenditures</u> |  |
|                                     |                             |                      |                      |                      |                               |                               |                               |  |
|                                     |                             |                      |                      |                      |                               |                               |                               |  |
|                                     |                             |                      |                      |                      |                               |                               |                               |  |
|                                     |                             |                      |                      |                      |                               |                               |                               |  |
|                                     | Benefits.....               |                      |                      |                      |                               |                               |                               |  |
|                                     | Operating Costs.....        |                      |                      |                      | \$199,151                     | \$0                           | \$0                           |  |
|                                     | Travel.....                 |                      |                      |                      |                               |                               |                               |  |
|                                     | Capital Outlay.....         |                      |                      |                      |                               |                               |                               |  |
|                                     | Capital Improvements.....   |                      |                      |                      |                               |                               |                               |  |
|                                     | <b>Total.....</b>           |                      |                      |                      |                               |                               |                               |  |