

**FISCAL NOTE**  
 LEGISLATIVE FISCAL ANALYST ESTIMATE

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2019-20</b>		<b>FY 2020-21</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS			\$3,778,913	(\$24,835,992)
CASH FUNDS			\$24,835,992	\$24,835,992
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>			\$28,614,905	\$0

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

LB 677 amends provisions regarding the school district levy limits, school districts, and the Property Tax Credit Act.

**Tax Equity and Educational Opportunities Support Act (TEEOSA) Changes:**

The bill lowers the maximum levy for school districts, beginning in FY 20-21, to \$0.987 per \$100 of valuation. This has the effect of lowering the local effort rate from \$1.00 to \$0.937, pursuant to section 79-1015.01.

The State Department of Education (NDE) must certify to the State Treasurer an estimate of the statewide increase in state aid paid to local systems pursuant to TEEOSA resulting from the decrease in the maximum levy for school districts. The amount of this increase must be transferred from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Fund to be paid as school district property tax relief aid.

The increase in state aid under the TEEOSA formula due to the lower local effort rate is estimated to be \$91,050,690 in FY 20-21. This amount will be transferred from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Fund under the bill.

**School District Property Tax Relief Aid:**

A local system qualifies for school district property tax relief aid if general fund property tax receipts exceed 55% of total general fund revenue for the local system. The property tax gap for a qualifying local system equals the general fund property tax receipts minus 55% of the general fund revenue.

The Department of Revenue (DOR) distributes the aid to qualifying local systems from the Property Tax Credit Cash Fund. School district property tax relief aid equals 75% of the school district property tax gap for the system.

School district property tax relief aid received will decrease the amount raised by property taxation shown in the each school district's budget statement. For school districts receiving school district property tax relief aid, budget authority for the general fund budget is reduced by 25% of the property tax gap unless the school board votes, by 2/3 majority of members, to override all or part of the reduction at least 30 days prior to approving the annual budget. A public hearing is required prior to the vote.

NDE must certify general fund property tax receipts, including any school district property tax relief aid, and total general fund revenue for each local system for the most recent year to DOR. DOR can adopt and promulgate rules and regulations.

The school district property tax relief aid for FY 20-21 is estimated to be \$157,785,302. This amount will be distributed to local systems who meet the qualifications outlined in the bill, but the distribution to each local system will vary based upon the calculated property tax gap.

**Property Tax Credit Cash Fund:**

LB 677 requires DOR to annually certify the amount required to be appropriated to the Property Tax Credit Cash Fund. The certified amount must be (1) the sum of the amount to be transferred to the Tax Equity and Educational Opportunities Fund pursuant to this act and the amount to be distributed as school district property tax relief aid or (2) \$224 million, whichever is greater.

There is estimated to be no change in the amount intended to be appropriated to the Property Tax Credit Cash Fund for FY 19-20. The bill does not amend the language related to the intent to appropriate \$224 million for property tax credits for FY 19-20.

For FY 20-21, the following cash flow would occur in the Property Tax Credit Cash Fund:

Current Appropriation	\$224,000,000
General Fund Transfer	\$24,835,992
Increase in TEEOSA	(\$91,050,690)
School District Relief Aid	(\$157,785,302)
Amount Remaining for Property Tax Credits	\$0

The sum of the increase in TEEOSA and the school district relief aid for FY 20-21 is \$248,835,992, which requires a General Fund transfer to the Property Tax Credit Fund of \$24,835,992, pursuant to section 4 of the bill.

**Option Enrollment Relief Correction:**

LB 677 also provides for an option enrollment relief correction beginning in FY 20-21. Each local system will receive equalization aid in the amount the total need exceeds total formula resources plus any option enrollment relief correction. A local system qualifies for an option enrollment correction if (1) the local system does not qualify for school district property tax relief aid and (2) the net option funding for the school districts in the system is more than 90% of preliminary state aid. The preliminary state aid for purposes of this calculation equals the sum of preliminary equalization aid, net option funding, allocated income tax funds, and community achievement plan aid. The option enrollment relief correction equals \$0.063 per \$100 of valuation.

The fiscal impact of the option enrollment relief correction is estimated to be \$3,778,913 for FY 20-21. NDE estimates no fiscal impact to the General Fund from this provision. However, the Legislative Fiscal Office disagrees because the bill provides the option enrollment relief is added to amounts distributed pursuant to section 79-1022, and as such, is a General Fund expenditure.

Neither NDE nor DOR estimate any costs to implement LB 677.

<b>ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY &amp; POLT. SUB. RESPONSE</b>		
LB: 677	AM:	AGENCY/POLT. SUB: Department of Education
REVIEWED BY: Lee Will	DATE: 2/12/2019	PHONE: (402) 471-4175
COMMENTS: Concur with the Department of Education's assessment of no fiscal impact.		

<b>ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY &amp; POLT. SUB. RESPONSE</b>		
LB: 677	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Lee Will	DATE: 2/12/2019	PHONE: (402) 471-4175
COMMENTS: Concur with the Department of Revenue's assessment of fiscal impact.		

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

**2019**

**LB<sup>(1)</sup> 677**

**FISCAL NOTE**

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

Prepared by: <sup>(3)</sup> Bryce Wilson Date Prepared: <sup>(4)</sup> 1/30/19 Phone: <sup>(5)</sup> 402-471-4320

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

	<u>FY 2019-20</u>		<u>FY 2020-21</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
<b>TOTAL FUNDS</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

**Explanation of Estimate:**

LB677 reduces the maximum levy from \$1.05 to \$0.987 which reduces the Local Effort Rate. The Local Effort Rate used to calculate resources for a District in the TEEOSA formula is adjusted from \$1.00 to \$.937. This bill may provide additional property tax relief for districts that have over 55% of their revenue coming from local property taxes. The state will provide property tax relief aid for 75% of a districts property tax request over the 55% threshold. The remaining 25% of property tax requests over 55% would need to be made up locally but cannot be accessed by a school district without a two-thirds majority vote of the board thirty days prior to approving the annual budget. LB 677 also adds an option enrollment relief correction amount for districts with over 90% of their TEEOSA coming from option enrollment. The amount is equal .063 per hundred dollars of valuation.

All property tax relief aid as well as the difference caused by the change in the LER and option enrollment relief correction is to come from the property tax credit fund.

No fiscal impact to NDE or the State.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2019-20</u>	<u>2020-21</u>
	<u>19-20</u>	<u>20-21</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
<b>TOTAL.....</b>	<b>_____</b>	<b>_____</b>	<b>_____</b>	<b>_____</b>

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 2/11/19				
Approved by: Tony Fulton		Date Prepared: 2/7/19				
		Phone: 471-5896				
	<u>FY 2019-2020</u>		<u>FY 2020-2021</u>		<u>FY 2021-2022</u>	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds						
Cash Funds						
Federal Funds						
Other Funds						
Total Funds						

LB 677 amends Neb. Rev. Stat. § 77-3442 to lower the maximum levy for school districts from \$1.05 for tax years prior to 2019 to \$0.987 for tax year 2020 and each tax year thereafter.

This bill amends the Property Tax Credit Act, requiring the Department of Revenue (Department) to determine the minimum amount necessary to be appropriated to the Property Tax Credit Cash Fund to carry out the requirements of the act. The Department is to certify this amount to the Governor and the Appropriations, Revenue, and Education committees of the Legislature by January 30th. The amount certified will be the greater of the sum of the amounts certified to the Department by the Department of Education to fund increases in state aid to schools that results from the decrease in the maximum levy or \$224 million. The Appropriations Committee is required to appropriate at least the minimum amount necessary to the Property Tax Credit Cash Fund as certified by the Department. Increases in state aid to be paid to school districts stemming from the decrease in the maximum levy are to be paid with monies transferred by the State Treasurer from the Property Tax Credit Cash Fund to the Tax Equity and Educational Opportunities Fund.

This bill amends Neb. Rev. Stat. § 77-4209 to revise the Property Tax Credit Act. For tax year 2020 and each tax year thereafter, the Department will calculate and distribute the “school district property tax relief aid” for each local system that qualifies. A local system qualifies when the general fund property tax receipts exceed 55% of the total general fund revenue for that system. The difference between the general fund property tax receipts and 55% of the general fund revenue is the “property tax gap.” Each local system that qualifies for relief aid shall be paid 75% of their property tax gap. On January 15th, the Department of Education will certify to the Department the general fund property tax receipts and total general fund revenue for each local system for the most recent complete data year. The Department is allowed to adopt and promulgate rules and regulations.

This bill amends Neb. Rev. Stat. § 77-4212 to decrease the amount of property tax relief funds distributed to the counties by the amount distributed to the local systems. It amends Neb. Rev. Stat. § 79-1023 for school districts receiving the property tax credit monies, their budget expenditures are to be reduced by 25% of the property tax gap unless the school board passes by a 2/3 majority vote to override the reduction at least 30 days prior to the annual budget approval.

This bill amends Neb. Rev. Stat. § 79-1001 to add option enrollment relief to the amount of state aid certified to school districts. Local school systems qualify for option enrollment relief if they would not otherwise qualify for relief aid, but more than 90% of the preliminary state aid comes from net option funding for all the school districts in the system. Preliminary state aid equals the sum of preliminary equalization aid, net option funding, allocated income tax funds, and community achievement plan aid. The option enrollment relief correction amounts to 6.3 cents per \$100 of adjusted valuation certified by the Property Tax Administrator.

It is estimated that there will be minimal costs to the Department to implement this bill.

**Major Objects of Expenditure**

<u>Class Code</u>	<u>Classification Title</u>	<u>19-20 FTE</u>	<u>20-21 FTE</u>	<u>21-22 FTE</u>	<u>19-20 Expenditures</u>	<u>20-21 Expenditures</u>	<u>21-22 Expenditures</u>
	Benefits.....						
	Operating Costs.....						
	<b>Total.....</b>						