

Revised on 5/17/07 based on amendments adopted through 5/16/07.

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2007-08		FY 2008-09	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			\$4,726,932	(\$567,000)
CASH FUNDS	\$200,000			\$367,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$200,000		\$4,726,932	(\$200,000)

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

LB 603, as amended, includes various bills pertaining to educational service units (ESU's). The following provisions of the bill have a fiscal impact.

Equalization Formula: The distribution of state aid to ESU's for core services and technology infrastructure is changed beginning in 2008-09. The current formula used to distribute both categories of aid provides each ESU with at least 2.5% of the appropriation and the remainder is distributed on a per student basis. LB 603 establishes a new equalization formula to allocate the combined total of core service and technology infrastructure state aid funds. The bill provides that 1% of the annual state aid appropriation for core services and technology infrastructure will initially be allocated to an ESU Coordinating Council. This equates to \$155,593 based on the A bill appropriation. The remainder of the appropriation is then distributed through the new formula.

The needs component of the new formula provides a base allocation to each ESU of 2.5% of the funds appropriated for the formula plus a telecommunications allowance equal to 85% of telecommunications costs less other resources. A needs component equal to 1% of the appropriation is included for satellite offices. A student count is used in the formula which is adjusted for sparsity. The adjusted student count is used to derive a student allocation based upon adjusted valuation times the local effort rate divided by adjusted students. Total needs for each ESU equals the sum of the base and satellite allocations, telecommunications allowance, and student allocation. The final allocation of funds to each ESU is determined by subtracting resources (adjusted valuation times the local effort rate) from needs. A hold-harmless provision is included in the formula for 2008-09 through 2013-14 providing that ESU's will receive at least 95% of the funds received in the preceding year.

The formula does not require an increase in the amount of state aid provided to ESU's. The formula can be implemented with no change in state aid. However, a shift in aid between ESU's will occur if the formula is implemented without an increase in state aid. The A bill for LB 603 provides an additional \$4,726,932 of general funds as aid to ESU's in 2008-09. The following table is an excerpt from a model run of the new formula using data from 2005-06, assuming the aid appropriation in 2008-09 is equal to the estimated amount that ESU's would have received per intent language, had reductions in aid not been made to address a state budget crisis. The model does not include the telecommunications allowance because the amount for the allowance is unknown. The actual fiscal impact of the formula in 2008-09 will vary from the estimate shown depending upon the number of students, valuations and the telecommunications allowance.

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	<u>ESU</u>	<u>2005-06</u> <u>Students</u>	<u>Square</u> <u>Miles</u>	<u>Model</u> <u>Total Aid</u>	<u>2006-07</u> <u>State Aid</u>	<u>Change in</u> <u>Aid</u>
1	Wakefield	10,940	3,425	819,387	410,020	409,367
2	Fremont	12,435	2,671	656,240	462,568	193,672
3	Omaha	62,673	1,222	2,322,079	2,228,389	93,690
4	Auburn	6,412	2,499	561,398	270,808	290,590
5	Beatrice	5,630	2,099	510,637	270,808	239,829
6	Milford	11,976	2,894	586,561	446,434	140,127
7	Columbus	11,854	3,912	566,811	442,146	124,665
8	Neligh	10,887	5,935	632,530	408,157	224,373
9	Hastings	8,999	2,856	598,842	341,795	257,047
10	Kearney	27,211	9,579	1,542,935	981,931	561,004
11	Holdrege	5,228	3,641	467,248	270,808	196,440
13	Scottsbluff	14,337	13,476	1,253,911	693,881	560,030
15	Trenton	3,795	4,753	462,504	270,808	191,696
16	Ogallala	8,224	11,018	767,096	314,551	452,545
17	Ainsworth	1,833	6,972	579,773	270,808	308,965
18	Lincoln	31,514	110	1,123,419	1,133,178	-9,759
19	Omaha	45,229	135	1,952,306	1,615,248	337,058
	Total	279,177	77,197	15,403,677	10,832,338	4,571,339

Merged ESU's: The bill extends the hold-harmless provisions from two to three years for aid provided to ESU's which merge. The change does not increase the amount of state aid provided to ESU's, but will shift aid between ESU's. The change will shift an estimated \$170,000 of aid to ESU #13 from other ESU's in 2007-08 because the ESU will be in the third year of a merger.

ESU Boundaries: The bill includes the provisions of LB 600 requiring the State Board of Education to adjust the boundaries of any ESU which are not aligned with the boundaries of member school districts. The adjustment shall be made on or before July 31st of each year based on boundaries existing on July 1st of such year. The fiscal impact for ESU's depends upon boundary changes of member school districts. Any change in boundaries will impact the amount of property tax revenue received by ESU's which gain or lose taxable property due to boundary changes.

ESU Coordinating Council: The bill includes the provisions of LB 601 establishing an ESU Coordinating Council on July 1, 2008. The bill eliminates the Distance Education Council and transfers the assets and liabilities of the Distance Education Council to the newly established ESU Coordinating Council on such date. The new council is to coordinate distance education in the state, administer statewide initiatives and services and prepare strategic plans to assure cost-efficient and equitable services. The council is composed of one administrator from each ESU.

The council is to be funded by 1% of the state aid appropriated for core services and technology infrastructure, appropriations for distance education and fees established for services. An executive director may be appointed and the current distance education director is to be retained as staff for the council. Other staff may be hired as deemed necessary by the council.

These provisions have no fiscal impact for the state because existing funds appropriated to ESU's as state aid will be used to fund the council. The authorization to use 1% of the state aid appropriation for the council translates to \$155,593 in 2008-09, based on the A bill appropriation. The requirement for ESU's to use 1% of core services funds for statewide initiatives and coordination will not have a fiscal impact for individual ESU's since ESU's currently have an interlocal cooperative agreement which is financed by a set-aside of 1% of core service funds for statewide activities. The requirement to use 1% of technology infrastructure funds for the council will shift ESU funds to this purpose.

The authorization to transfer the assets and liabilities of the Distance Education Council to the ESU Coordinating Council will likely result in a transfer of at least an additional \$530,300 of general funds which is the amount recommended by the Appropriations Committee to fund the activities of the Distance Education Council in 2008-09 per LB 1208 (2006).

Governance of ESU's: The provisions of LB 602, included in the bill, change the number of board members for all ESU's, except ESU's #18 and #19, beginning in 2009. Currently, the boards for ESU's having more than one member district, are composed of one board member from each county and four members at large. The bill provides for the membership to range from five to twelve persons,

depending upon the number of election districts established by an ESU. The bill may have a minimal fiscal impact for ESU's in terms of increased or decreased reimbursement expenses for board members depending upon changes in the number of members on boards.

Distance Education Equipment & Transport Costs: The bill includes provisions of LB 656 which provide temporary funding from the School District Reorganization Fund for aggregation routing equipment and network transport costs for Network Nebraska. Total temporary funding from the fund is limited to \$200,000 for 2007-08 through 2009-10. The Chief Information Officer (CIO) and the University of Nebraska are to submit applications to the State Department of Education for the use of such funds. Applications are to include a timeline for repayment of the funds to the School District Reorganization Fund by June 30, 2010. Funds collected for the administration of Network Nebraska are to be used to repay the loans. Any money remaining in the School District Reorganization Fund on July 1, 2010 is transferred to the Education Innovation Fund.

The bill also changes the disposition of the proceeds of the School District Reorganization Fund. Current law requires all of the proceeds to be deposited in the General Fund on July 1, 2008. The bill provides for up to \$200,000 to be loaned for routing equipment and network transport costs and the remainder to be deposited in the Education Innovation Fund on such date.

Current law provided for \$1 million to be transferred in 2005-06 and 2006-07 from the Education Innovation Fund to the School District Reorganization Fund for the payment of base year incentives to Class II and Class III school districts which reorganize. Payments to school districts which reorganized in the initial year totaled \$646,505.

The School District Reorganization Fund had a balance of \$1,405,240 on 3/31/07. It is projected the fund will have a balance of \$1,421,000 on 6/30/07, if no other schools qualify for base year fiscal incentives from the fund in 2006-07. Eligible Class II and III school districts have until June 1, 2007 to reorganize to qualify to receive base year incentives from the fund. NDE indicates there are two reorganizations in progress. The estimated amount of base year incentives to be paid for these reorganizations is \$854,000. If these are the only reorganizations that occur, there will be a sufficient balance in the fund to loan \$200,000 to the CIO and University for routing equipment and network transport costs.

The change in disposition of the proceeds of the School District Reorganization Fund from the General Fund to the Education Innovation Fund will have a total estimated fiscal impact of \$567,000 of decreased revenue for the General Fund and increased revenue for the Education Innovation Fund, assuming only the two reorganizations in progress occur in 2006-07. The loss of revenue for the General Fund will occur in 2008-09. The initial increase in revenue for the Education Innovation Fund will occur in 2008-09 (\$367,000) and the remainder (\$200,000) will be deposited in the fund on or before July 1, 2010 based upon the loan repayment schedule or the transfer provision in the bill.

Distance Education Reimbursements: The provisions of LB 657 included in the bill pertain to the qualifications of school districts and ESU's for lottery funds allocated for distance education equipment reimbursement and incentives. The bill allows ESU's to count each office within the ESU that has a distance education classroom serving 4,000 square miles to qualify for equipment reimbursement for such classroom. School districts may also count high school buildings for purposes of reimbursement that are no longer being used as such due to a school district merger, if the buildings had distance education classrooms at the time of application. Elementary distance education courses offered by school districts and ESU's may qualify for incentives if funds remain after equipment reimbursements and incentives for other courses are paid. These provisions have no fiscal impact for the state in terms of the total amount of lottery funds dispersed for distance education equipment and incentives. There will be an increase in revenue for individual ESU's and school districts which claim reimbursement for equipment or incentives pursuant to the bill.

Early Childhood Education Grants: The bill provides for a one year continuation of early childhood grant funds to programs in nonequalized school districts which would have lost the grant funds in 2007-08 due to the inclusion of the early childhood education students in the calculation of state aid. The provision will not change the total amount of state aid provided for early childhood programs. The change will enable a few programs to retain the early childhood education aid in 2007-08 which will reduce the amount available to be allocated to other early childhood education programs.

In summary, the fiscal impact of the bill is \$4,726,932 of general funds in 2008-09, based upon the appropriation provided in LB 603 A. The bill also has an estimated general fund fiscal impact of decreased revenue to the general fund of up to \$567,000 in 2008-09 and a like increase in revenue for the Education Innovation Fund because funds remaining in the School District Reorganization Fund are deposited into the Education Innovation Fund rather than the General Fund per the bill.