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 DATE PREPARED: November 13, 2009
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Revision: 02

Revised on 11/16/09 based on amendments adopted through 11/13/09.

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2009-10		FY 2010-11	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			(\$31,917,000)	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			(\$31,917,000)	

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

LB 5 changes the formula which provides state aid to schools pursuant to the Tax Equity and Educational Opportunities Support Act. The change in state aid for 2010-11 pursuant to the bill is an estimate at this time because the certification of state aid for 2010-11 will not be made until March 1st of 2010. The fiscal impact for 2011-12 and beyond is estimated and may also change pursuant to school spending and valuation changes.

CHANGES TO NEEDS IN THE TEEOSA FORMULA: The bill changes various portions of the computation of school district needs in the state aid formula. The changes which will have a fiscal impact for the state and/or school districts are as follows:

Base Limitation/Cost Growth Factor: The base limitation rate or allowable growth rate in the aid formula is decreased by 1.25%, from 1.5% to .25% for 2010-11. The change in the rate decreases the cost growth factor in the formula which is used to inflate two-year old school district expenditures for purposes of calculating aid. Currently, the cost growth factor is 5% for 2010-11 and 4.5% for 2011-12. The change in the allowable growth rate decreases the cost growth factor to 3.75% for 2010-11 and 3.25% for 2011-12.

The decrease in the cost growth factor decreases the amount of state aid that is provided as basic funding. The decrease in basic funding pursuant to the decrease in the cost growth factor is estimated to be \$15.9 million in 2010-11 and \$17.9 million in 2011-12.

Teacher Education Adjustment/ Allowance: The teacher education adjustment in the current formula increases need for schools having teachers with masters or doctoral degrees. The bill eliminates the adjustment in the formula for teacher education and establishes an allowance for teacher education. Adjustments in the state aid formula increase the overall amount of state aid distributed and allowances redistribute the amount of calculated aid between school districts.

The elimination of the teacher education adjustment decreases state aid by an estimated \$14.8 million in 2010-11, \$15.6 million in 2011-12 and \$16.3 million in 2012-13. The change to an allowance alters the distribution of state aid to enable districts that qualify for the allowance to include the allowance as part of the calculation of need for that specific district.

It should be noted that the calculation of the teacher education allowance is slightly different than the calculation of the teacher education adjustment. The change in the calculation methodology used for the allowance will have an unknown impact in terms of altering the distribution of state aid between school districts.

Instructional Time Allowance: The bill redefines the basis for calculating the instructional time allowance beginning in 2011-12. The bill requires the State Department of Education to define the average hours of instruction used to compute the allowance and provides for the hours of instruction to be based on scheduled time for courses and the number of students participating in such courses as reported to the department for the most recent complete data year. It is assumed the change will have a small fiscal impact in terms of a redistribution of state aid between school districts.

Elementary Site Allowance: The bill redefines the elementary site allowance to clarify that all elementary grades are to be offered in each elementary attendance site in order to qualify for the allowance. It is assumed the change will have very little fiscal impact in terms of a redistribution of state aid between school districts.

CHANGES TO RESOURCES IN THE TEEOSA FORMULA:

Allocated Income Tax Funds: The bill provides that allocated income taxes will be reduced by \$20 million for aid calculated in 2010-11. This reduces resources to school districts by \$20 million in 2010-11 which causes a corresponding increase in equalization aid received by school districts. The reduction in resources will change the distribution of aid and only impacts non-equalization districts in terms of an actual decrease in the amount of state aid received in 2010-11. The estimated fiscal impact is a \$1.2 million decrease in state aid in 2010-11.

CHANGES TO BUDGET LIMIT: Currently, general fund budgets of school districts, excluding special education and special grant funds, are limited to the greater of: the prior year's general fund budget of expenditures times one plus the local district's allowable growth rate, or, 120% of the formula needs (less the prior year's special education budget times one plus the basic allowable growth rate).

The decrease in the base limitation rate (allowable growth rate) that was referenced in the needs discussion also changes the calculation of budget limits for those school districts using the computation method based upon inflating the prior year's budget of expenditures. The bill decreases the allowable growth rate by 1.25% but it also provides for a .75% increase in the rate in 2010-11. The impact of the changes in the bill decrease the budget limit of school districts, using the methodology of inflating the prior year's budget of expenditures, to 1% in 2010-11. The fiscal impact of the change in the budget limit is unknown because it is not known how the change will impact school spending in 2010-11. If school spending decreases, then there will be a corresponding decrease in state aid, two years after the spending decrease occurs.

FISCAL IMPACT: The Department of Education has modeled the fiscal impact of LB 5 and the model indicates that state aid will decrease by an estimated \$31,917,000 of general funds in 2010-11 pursuant to the bill. The estimated impact is calculated as follows:

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Current Law – Est. State Aid Total*	965,000,000	1,042,909,814	1,131,127,400
Cost Growth Factor	-15,930,207	-17,948,998	0
Teacher Education Adjustment	-14,822,675	-15,563,809	-16,288,447
Allocated Income Tax	-1,164,077	0	0
Elementary Site Allowance	0	0	0
Budget Limit	<u>0</u>	<u>0</u>	<u>???</u>
LB 5 Fiscal Impact	-31,916,959	-33,512,807	-16,288,447
Total Estimated State Aid	933,083,041	1,009,397,007	1,114,838,953

* FY11 estimate per letter from NDE in accordance with Section 79-1031