

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2015-16		FY 2016-17	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$104,710	\$35,990,000		\$26,990,000
CASH FUNDS				
FEDERAL FUNDS				
DISTRIBUTIVE FUNDS		\$466,588,000		\$344,588,000
TOTAL FUNDS	\$104,710	\$502,578,000		\$371,578,000

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

LB 280 authorizes a school-funding surtax on the income tax liability of resident and nonresident individuals. The bill reduces the cap on property tax levies for school districts on a phased-in basis over a four year period.

It also changes the allocation of state aid through the Tax Equity and Educational Opportunities Support Act (TEEOSA). The local effort rate in the state aid formula is decreased and the valuation of agricultural land for state aid purposes is reduced. A new foundation aid component is added to the state aid calculation. Formula resources are redefined to include foundation aid and school-funding surtax revenue. The basis for the minimum levy adjustment in the formula is also reduced and the levy used to calculate the averaging adjustment is decreased. School districts which opt to increase the school-funding surtax revenue above 19.4% are allowed an increase in budget authority.

The estimates provided in this fiscal note are based upon 2014 income taxes and the FY2015-16 certification of state aid. The actual fiscal impact of the bill will occur beginning in FY2017-18 for property taxes levied and state aid allocations. Increased income taxes will be collected beginning in tax year 2015.

School-funding surtax: The bill imposes a school-funding surtax on the income of resident and nonresident individuals beginning with tax year 2015 (due to the emergency clause on the bill), which will increase revenue beginning in FY2015-16. The revenue impact in the initial tax year 2015 will also include withholding for tax year 2016. Thereafter there would be a twelve month impact. The rate of the surtax is 19.4%. The amount paid by residents is owed to each school district and the amount owed by nonresidents is credited to the state General Fund. The Tax Commissioner is to prescribe withholding tables to use to collect the surtax.

Based upon 2014 individual income tax, a 19.4% surtax will increase revenues for school districts by an estimated \$344.6 million and for the state General Fund by \$27 million for a twelve month period. The initial year of revenue will be \$502.5 million. The increased revenue is considered to be a resource in the calculation of TEEOSA aid.

A school board may approve a higher rate by a supermajority vote of the board or by a majority vote of patrons. These increased rates may only be approved for up to five years. Districts have increased budget authority equal to the general fund budget of expenditures for the prior year less exclusions times the basic allowable growth rate (2.5%).

Department of Revenue Expenditures: The Department of Revenue projects a one-time increase in expenditures for computer programming of \$104,710 general funds in FY2015-16 for mainframe and web development changes.

Property Tax Levies: The bill decreases the maximum property tax levy for a school district from \$1.05 to: \$.95 in FY18; \$.90 in FY19; \$.85 in FY20; and \$.80.5 in FY21 and thereafter. The levy authority for the learning community is also reduced on a like phased-in basis for the four year period. A decrease in the amount that may be levied by a school district reduces revenue for school districts by an estimated \$436.1 million at a levy of \$0.805.

TEEOSA: The calculation of resources for school districts in the aid formula will change pursuant to the bill. The following changes in the formula will have a fiscal impact.

Local Effort Rate: The local effort rate (LER) in the formula is currently set at \$1.00 for FY2015-16. The bill decreases the LER to \$0.755 in FY 2017-18 and thereafter. A decrease in the LER increases the amount of state aid provided to school districts because the formula assumes a district has decreased resources. The estimated increase in state aid is \$313.4 million.

Minimum Levy Adjustment: The bill changes the minimum levy adjustment in the TEEOSA formula beginning in FY2017-18. The minimum levy adjustment reduces resources for school districts that do not levy at least \$.95 or \$.90 for the learning community. The bill provides for a minimum levy adjustment if a school district levies less than \$.705 or \$.655 for the learning community.

Changing the minimum levy penalty increases resources for equalized school districts that do not levy the required amount. The amount of change cannot be calculated because levies are unknown.

Averaging Adjustment Levy Requirement: The bill changes the averaging adjustment calculation in the TEEOSA formula. The adjustment increases aid for districts with greater than 900 formula students if the basic funding per formula student is less than the average for districts with more than 900 formula students. Beginning in FY2017-18, the bill phases in a decrease in the levy which is the basis for the percentage used in the calculation of the averaging adjustment. The amount of change in the averaging adjustment cannot be calculated because levies are unknown.

Valuation of Agricultural Land: The value of agricultural land for purposes of calculating TEEOSA aid is reduced from 72% of actual value to 62.4% of actual value. The change in value of agricultural land will increase TEEOSA aid by an estimated \$28.3 million because formula resources for school districts with agricultural land will be reduced.

Foundation Aid: Beginning in FY2017-18 the bill provides foundation aid to school districts in the amount of \$500 per formula student. This will increase TEEOSA aid by an estimated \$18.5 million. The entire amount generated by the foundation amount is not realized as increased aid because the bill provides for foundation aid to be a resource in the calculation of aid.

Budget Authority: LB 280 allows a school district which increases its school-funding surtax to greater than 19.4% to increase its budget authority by the basic allowable growth rate. This allows the school district to expend some or all of the revenue received from the excess school-funding surtax.

SUMMARY: The interaction of the changes in the bill are estimated to have the following fiscal impact for the state and school districts based upon changes in TEEOSA aid, property taxes and income taxes paid by individuals. This analysis ignores the initial year of revenue projected for FY2015-16.

TEEOSA: The bill increases TEEOSA aid by an estimated \$59 million. The projected change is computed as follows:

FY2015-16 TEEOSA Aid	\$971,681,554
LER to .755	313,366,558
Income tax surtax included as local resource	-301,219,968
Agricultural land to 65%	28,341,323
Foundation Aid of \$500/formula student	18,528,111
Minimum levy adjustment	?
Averaging Adjustment	?
Increase in TEEOSA Aid	\$59,016,023

School Districts: The bill increases revenue for school districts from TEEOSA aid and income taxes. It also decreases property tax revenue.

Increase in TEEOSA Aid	59,016,023
Income Tax (19.4%)	344,587,953
Decrease in Property Taxes at \$80.5 Levy	<u>-436,104,300</u>
Net Change in School District Revenue	-\$32,500,325

Property Taxes: The bill decreases the property tax levy for school districts on a phased-in basis beginning in FY2017-18. The amount of property taxes levied will also change based upon increased revenue for school districts from TEEOSA aid and the surtax on income taxes.

Based upon increase in TEEOSA Aid	-59,016,023
Based upon increase in income taxes	-344,587,953
Based upon levy limit at \$.805	<u>-32,500,325</u>
Decrease in Property Taxes	-\$436,104,300

General Fund: The bill increases general fund expenditures for TEEOSA aid and increases income tax revenue from non-resident individuals based on the 19.4% surtax.

Increase in TEEOSA Aid Expenditures	-59,016,023
Increase in Income Tax Revenue	<u>26,990,268</u>
Net Change in the General Fund	-\$32,025,755

School districts that are members of learning communities may levy for purposes of such districts' general fund budget and special building funds a maximum combined levy of the difference between the levy caps. Levies imposed prior to the effective date of the legislation are grandfathered under the legislation.

LB 280 adjusts state aid value for agricultural and horticultural land from 72% of actual value to 62.4% of actual value.

LB 280 makes several adjustments to TEEOSA based on the new levy caps, including calculation of local resources to include proceeds from the local income tax imposed under this act. Beginning in school fiscal year 2017-18, an amount equal to five hundred dollars per formula student must also be paid to each school district as foundation aid.

LB 280 will result in an increase in revenues as follows:

Fiscal Year	General Fund	Cash Fund	Total
2015-16	\$29,850,000	\$381,080,000	\$410,930,000
2016-17	\$31,680,000	\$404,410,000	\$436,090,000
2017-18	\$33,660,000	\$429,710,000	\$463,370,000
2018-19	\$35,590,000	\$454,400,000	\$489,990,000

LB 280 changes the aid calculation under TEEOSA, which would have an impact on General Fund expenditures. The amount of the impact cannot be determined by the Department of Revenue.

LB 280 will require a one-time programming charge of \$104,710 paid to the OCIO for mainframe and web development changes.

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2015

LB⁽¹⁾ 280

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Dept of Education

Prepared by: ⁽³⁾ Bryce Wilson

Date Prepared: ⁽⁴⁾ 1/16/15

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ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2015-16</u>		<u>FY 2016-17</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:

The decrease in the Local Effort Rate (LER) will result in a significant increase in TEEOSA funding possibly in the \$300 million range. This increase will be offset by an estimated \$300 million surtax revenue which will be counted as a resource in the formula.

In addition the creation of a foundation aid component would increase TEEOSA amount by around \$30 million which would be the portion going to the non-equalized districts.

Lastly, the reduction in ag valuations from 72% to 62.4% will result in a small increase in TEEOSA as well.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2015-16 EXPENDITURES</u>	<u>2016-17 EXPENDITURES</u>
	<u>15-16</u>	<u>16-17</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____