

## LB 1059 FISCAL NOTE

Revised on 3/2/90 based on February 1990 Revenue Forecast.

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FUND	EXPENDITURE	REVENUE
General	\$212,611,311	\$218,500,000
Cash		6,932,900
Federal		
Revolving	5,000	
TOTAL 1990-91	\$212,616,311	\$225,432,900
TOTAL 1991-92	\$228,879,648	\$242,466,136

LB 1059 establishes the Tax Equity and Educational Opportunities Support Act. The bill adopts a new formula for distributing state aid to education, dedicates 20% of projected income tax receipts for the support of public schools and increases income and sales tax rates to finance the act.

Revenues: Section 27 increases the primary rate for income tax purposes from 3.15% to 3.7% on January 1, 1990. Based on the February 1990 forecast of the Nebraska Economic Forecasting Advisory Board, the increase in General Fund revenue from this tax increase is projected to be \$115,500,000 in 1990-91 and \$113,800,000 in 1991-92. The estimate for 1990-91 assumes an 18 month impact in terms of revenue received due to a change in withholding in July, 1990. The majority of the revenue from the corporate income tax increase is not reflected until 1991-92 to more accurately portray the cash flow of anticipated receipts. These projections include increased revenue of an estimated \$1,000,000 in 1990-91 and 1991-92 pursuant to an increase in the tax on financial institutions. Note that these funds are not dedicated for the use of public schools in the bill.

Section 28 increases the sales tax rate from 4% to 5% on July 1, 1990. The increased revenue projected for the General Fund in 1990-91 from this increase is \$103,000,000 and in 1991-92 is \$120,200,000. The Highway Trust Fund will also have increased revenue of \$13,000,000 in 1990-91 and \$15,875,000 in 1991-92 pursuant to the increase in the sales tax on motor vehicles. The revenue from the Highway Trust Fund is distributed to the Department of Roads (53 1/3%), cities (23 1/3%) and counties (23 1/3%). The increased revenue for the Department of Roads is projected to be \$6,932,900 in 1990-91 and \$8,466,136 in 1991-92. Cities and counties will each receive increased revenue of \$3,033,550 in 1990-91 and \$3,704,432 in 1991-92.

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In summary, the revenue Increases are projected as follows:

	Entity Receiving	1990-91	1991-92
Income Tax (3.15% to 3.7%)	State General Fund	\$115,500,000	\$113,800,000
Sales Tax (4% to 5%)	State General Fund	103,000,000	120,200,000
Sales Tax on Motor Vehicles (4% to 5%)	Dep't of Roads Cash	6,932,900	8,466,136
	Cities	3,033,550	3,704,432
	Counties	3,033,550	3,704,432
	<b>TOTAL REVENUE</b>	<b>\$231,500,000</b>	<b>\$249,875,000</b>

Expenditures: Section 2 of LB 1059 requires the state to provide 45% of the General Fund operating expenditures of school districts. Using data from 1) the 1987-88 annual financial report of school districts; 2) assuming a 6% growth in school district spending in 1988-89; 3) a 9% increase in school spending 1989-90; and 4) historical trends for increases in existing state support for schools, the fiscal impact for the state to fund 45% of school expenditures using the formula in LB 1059 is computed as follows:

	FY1990-91	FY1991-92
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>\$1,188,089,331</b>	<b>\$1,246,493,797</b>
Tuition-Other Districts (Regular)	(\$5,988,611)	(\$6,288,042)
Tuition-Other Districts (Spec Ed)	(5,407,403)	(5,894,069)
Transportation-Other Districts	(102,117)	(111,308)
Summer School expenses	(1,904,725)	(1,999,962)
Adult Education (General Fund)	(1,030,070)	(1,081,573)
Transfers to School Lunch	(19,734,686)	(20,721,420)
Transfers from other Funds	(2,193,609)	(2,303,290)
Community Services	(608,877)	(639,321)
Redemption of debt principal	(42,080,827)	(44,184,869)
<b>GENERAL FUND OPERATING EXPENDITURES</b>	<b>\$1,109,038,405</b>	<b>\$1,163,269,944</b>
Target Percentage	0.45	0.45
Total State Support Needed	\$499,067,282	\$523,471,475
Existing state aid	(287,719,853)	(295,478,611)
<b>ADDITIONAL STATE AID NEEDED</b>	<b>\$211,347,429</b>	<b>\$227,992,864</b>

The State Department of Education will require additional staffing and operating costs to implement and administer the new aid formula in the bill. It is assumed that a 1.5 Administrator I, a 1.5 Financial Aid Accountant and a 1.0 Secretary II will be added at a salary and benefits cost to the General Fund of \$132,513 in 1990-91 and \$142,604 in 1991-92. Operating expense increases are projected in the amount of \$110,390 in 1990-91 and \$20,619 in 1991-92. The 1990-91 cost increase includes \$86,500 to update the annual finance report program and implement a new state aid system, create a budget tracking system and revise various state aid reports. An additional \$24,150 of General Fund expenditures is projected in 1996-91 and \$8,425 in 1991-92 for travel of department staff and capital outlay expenses. Also included in the estimated expenditures for the department is \$2,400 General Funds for 1990-91 and \$1,200 General Funds for 1991-92 to provide for the costs of the School Finance Review Committee created in Section 23. The total increased General Fund expenditures for the State

Department of Education are projected to be \$269,453 of General Funds in 1990-91 and \$172,848 in 1991-92. An additional \$5,000 of revolving fund authority is necessary in each fiscal year to charge back key entry expenses.

The Department of Revenue will have increased expenses to provide income tax information by school district to the State Department of Education, change withholding tables for income tax purposes in 1990-91 and issue new sales tax rate cards in 1990-91. The primary fiscal impact of LB 1059 for the department will be the requirement to compute an adjusted valuation for each school district by using a factor for each class of property to reflect actual value. It is assumed that 14.0 Property Tax Analysts III, 1.0 Office Clerk III, 2.0 Property Tax Analyst Supervisors and 1.0 Data Entry Operator will be hired to determine actual land values and implement the other provisions of the bill. The estimated salary and benefits costs for these staff is \$553,936 of General Funds in 1990-91 and \$587,172 in 1991-92. Associated operating, travel and capital outlay expenditures are projected to be \$438,493 for 1990-91 and \$121,764 for 1991-92. Included in this projection of operating costs in 1990-91 is \$39,191 to change withholding tables midyear and \$125,837 for data processing primarily relating to the calculation of actual land values. In summary, the total projected General Fund impact of the bill for the Department of Revenue is \$992,429 in 1990-91 and \$708,936 in 1991-92.

Section 15 requires the State Auditor to change the budget documents for school districts in order to effectuate the budget limitation in the bill. It is estimated that a one-time expense of \$2,000 General Funds will be incurred to develop, distribute and print the new budget document.

In summary, the estimated increase in General Fund expenditures by state agencies to provide state aid and administer the bill is as follows:

	1990-91	1991-92
State Department of Education - Aid to Schools	\$211,347,429	\$227,992,864
State Department of Education - Operations	269,453	172,848
Department of Revenue - Operations	992,429	708,936
State Auditor - Operations	2,000	0
	\$212,611,311	\$228,874,648

As a technical observation, it is important to note that increased General Fund expenditures of \$212.6 million will result in a \$6.37 million increase in General Funds necessary to meet the statutory reserve requirement.

Effect on Counties and Property Taxes: Counties currently receive a 1% property tax collection fee. The revenue received by counties will decrease by an estimated \$2,240,000 in 1990-91 and \$2,550,000 in 1991-92 if LB 1059 is implemented. This is because it is estimated that counties will be collecting approximately \$224,000,000 less in property tax revenue in 1990 and \$255,000,000 less in 1991.

Note: Agency estimates from the Department of Revenue, Department of Education and the Auditor of Public Accounts can be seen on the fiscal note dated January 22, 1990, but were not reproduced on this revision due of their length.