



Clear thinking for
a stronger Nebraska

Purpose of Primer

To provide a resource for policymakers, the media and citizens to better understand the education finance system in Nebraska.

To add information to the dialogue on how the state can equitably and adequately provide for the education of all students.

Contents of Primer

Chapter 1: History of School Funding

Chapter 2: A Closer Look at the Components of School Funding, including an explanation of TEEOSA

Chapter 3: Spending and Tax Restrictions

Chapter 4: Evaluating the Nebraska Education Funding System

Property taxes have always been the primary source of funding for Nebraska's schools.

Prior to 1967, public schools were funded by a state property tax and a local property tax.

School Foundation and Equalization Act

- Became law in 1967.
- First comprehensive school funding reform measure.
- Composed of Foundation Aid, Equalization Aid and Incentive Aid.
- Never came close to state funding goal of 40%.

Issues Surrounding the Education Funding System

- Significant tax rate disparities
- Significant per pupil spending disparities
- 1986 Voter rejection of school consolidation and increased sales tax
- Led to the creation of the School Finance Review Commission in '88

Recommendations of School Finance Review Commission

- Dedicate 20% of all state income tax revenue to public schools.
- Increase the level of state support to 45% of schools' operating costs.
- Implement an equalization-based school aid formula.
- Limit the growth of school districts' budgets.
- Fund school finance on an ongoing and sustainable basis with increases in sales tax, income tax or both.

LB 1059 – The Cornerstone of Nebraska’s Education Funding System

- LB 1059 passed in 1989.
- Reflected work of the School Finance Review Commission.
- Raised state sales and income tax rates to broaden financial support for public schools.

Local Sources of Revenue

- Includes local property taxes.
- School districts are 1 of the 31 political subdivisions that rely on property tax dollars.
- 60% of all property taxes collected are used by school districts.
- Other local sources – Public Power District Sales Tax, Motor Vehicle Taxes

Key Definitions of State Sources of Funding

- State Support – all monies provided to school districts by the state.
- State Aid (TEEOSA Aid) – a component of state support distributed by the state aid formula.
- Equalization Aid – a component of state aid.

State Sources of Revenue

- Accounted for \$1.46 billion (37%) of the total revenue for school districts in 2017/18 (homestead exemption, property tax credit, pro-rate motor vehicle, apportionment)
- State aid is the largest source of state funding.
 - \$999 million (26%) of total revenue for school districts in 2017/18.
 - \$850 million of state aid was equalization aid.

Other State Sources of Revenue Not Part of State Aid

- \$456 million (14%) of total revenue for school districts.
- Other state sources – Special Education Costs, Early Childhood Grants, State Apportionment

Source: 2017/18 Statewide Annual Financial Report

The State Aid Formula

- Formula was intended to reduce school districts' heavy reliance on property taxes.
- The formula is complex to account for the unique needs and differences of Nebraska's 244 school districts.

Important Distinction between State Aid and Equalization Aid

- All school districts receive state aid.
- Not all school districts receive equalization aid.
- In 2019/20, 163 of 244 school districts were non-equalized – they received no equalization aid.

Step 1 – Determining Needs

- Needs are the costs – determined by the formula – that a school district incurs to educate its students.

Need Sources



FORMULA STUDENTS

- Grades K - 12
- Qualified 4 year olds (60% Rate)
- Contracted to another district



GENERAL FUND OPERATING EXPENDITURES

- Revenues & expenses from Annual Financial Report



PROPERTY VALUE

- Tax Base
- Districts ability to pay

Categories of needs



BASIC FUNDING

- Estimated amount required to generally operate a school district with a specified number of students
- Calculated by a comparison group
- Average general fund operating expenditures



ALLOWANCE

- Based on estimated or actual expense
- District specific
- Addresses a specified situation by reducing basic funding



ADJUSTMENT

- Increases the needs
- Adds money to formula
- Addresses a specified situation without reducing basic funding



CORRECTION

- Added or subtracted
- Corrects for an allowance or an adjustment
- Occurs 2 years later



STABILIZATION

- An amount added or subtracted
- Keeps the needs from growing or declining by more than a specific rate

ALLOWANCES

2019/20 ALLOWANCES

*Recognizes
Funding
For....*

- ✓ Transportation
- ✓ Distance Education & Telecommunications
- ✓ Elementary Site
- ✓ Summer School
- ✓ Focus School & Programs
- ✓ Special Receipts
- ✓ Poverty/Limited English Proficiency (LEP)

Transportation Allowance

Lesser of:

- Actual specific transportation costs
- Calculated amount based on the miles transported (excluding activities) + in-lieu-of transportation

Distance Education & Telecommunications Allowance

85% of costs for

- Telecommunications Services
- Access to data transmission networks
- Transmission of data
- Minus E-Rate

Elementary Site Allowance

Qualifying Elementary Attendance Site

- Is in a district with multiple elementary attendance sites
- Does not have another elementary attendance site within 7 miles or
- Is the only public elementary site located in an incorporated city or village

Elementary Site Allowance

2019/20 State Aid Certification

- 14 school districts qualified
- \$5M Total Allowance

Summer School Allowance

Lesser of:

- Actual summer school expenditures or
- 2.5% Summer School Student Units X 85% of statewide average general fund operating expenditures per student

Summer School Allowance

- Summer School Student Units = each student enrolled in summer school for at least 12 days for at least 3 hours per day
- Additional Summer School Student Units for each student attributed to a remedial math or reading program and for free lunch students

Focus School

Applies to school districts in a learning community

- Does not have an attendance boundary
- Enrollment is designed for socioeconomic diversity of students
- Unique curriculum with specific learning goals or teaching techniques

Special Receipts

District specific receipts

- Special Education
- State Ward
- Accelerated or differentiated curriculum program

Poverty & K-12 Education

- TEEOSA formula recognizes that poverty presents increased challenges to education through poverty allowance.
- Schools with concentrated poverty face even greater challenges.
- In 128 school districts, over 40% of students qualify for free/reduced meals in FY18.
- In 523 public school buildings in NE, over 40% of students qualify for free/reduced meals in FY18.

Poverty Allowance

Lesser of

- How much a school district estimates the cost of poverty to be for the school year or
- Calculated amount based on free lunch students or low-income children

Limited English Proficiency Allowance

Lesser of

- How much a school district estimates the cost of limited English proficiency to be for the school year or
- Calculated amount based on the number of limited English proficient students X 25% of the statewide average general fund operating expenditures per student

Basic Funding

- Determines how much a district should theoretically spend compared to schools with a similar number of students.
- Helps smooth out spending between districts to make sure students have educational opportunities that are as equal as possible.

Cost Growth Factor

- Basic Allowable Growth Rate for the school year aid will be paid

Plus

- Basic Allowable Growth Rate for the school year immediately preceding the school year aid will be paid

Adjusted General Fund Operating Expenditures

General Fund Operating Expenditures

multiplied by

Cost Growth Factor

minus

Allowances

NEBRASKA DEPARTMENT OF EDUCATION
SCHOOL FINANCE AND ORGANIZATION SERVICES

2015/16 TEEOSA
FORMULA STUDENTS IN ASCENDING ORDER

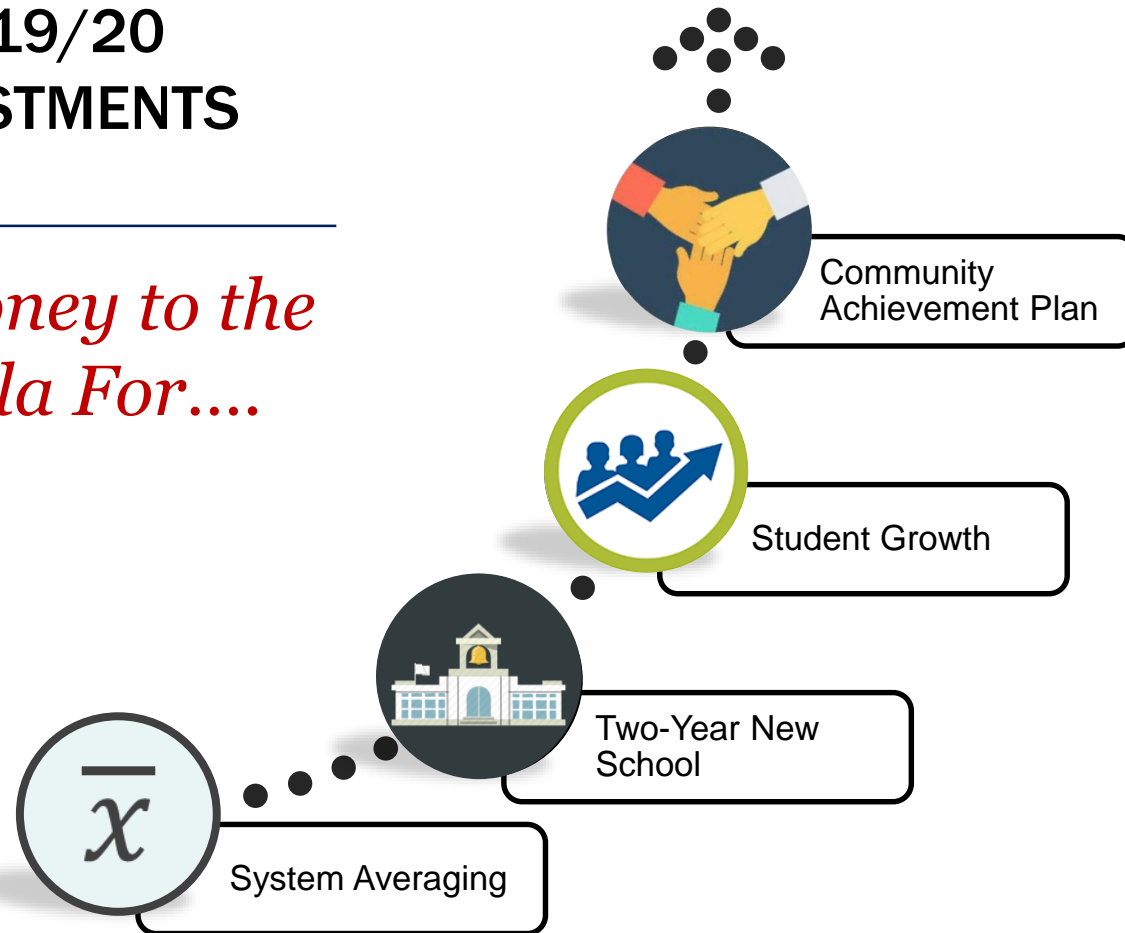


County	County/District Number	District/System Name	Formula Students	Adjusted General Fund Operating Expenditures	Adjusted General Fund Operating Expenditures per Formula Student
BOYD	08-0036-000	LYNCH PUBLIC SCHOOLS	62.98	1,595,775.80	25,338.22
WHEELER	92-0045-000	WHEELER CENTRAL SCHOOLS	76.07	1,982,412.12	26,059.57
LOUP	58-0025-000	LOUP COUNTY PUBLIC SCHOOLS	76.51	1,631,774.82	21,328.19
MCPHERSON	60-0090-000	MC PHERSON COUNTY SCHOOLS	79.81	1,712,364.53	21,455.82
HOWARD	47-0103-000	ELBA PUBLIC SCHOOLS	89.69	1,304,469.64	14,543.79
SIOUX	83-0500-000	SIOUX COUNTY PUBLIC SCHOOLS	93.86	2,425,333.47	25,840.95
THOMAS	86-0001-000	THEDEFORD PUBLIC SCHOOLS	96.54	1,983,981.00	20,549.92
KEYA PAHA	52-0100-000	KEYA PAHA COUNTY SCHOOLS	98.66	2,030,679.32	20,582.84
HAYES	43-0079-000	HAYES CENTER PUBLIC SCHOOLS	101.04	2,329,401.67	23,053.26
SHERMAN	82-0015-000	LITCHFIELD PUBLIC SCHOOLS	102.73	1,914,784.13	18,639.24
ARTHUR	03-0500-000	ARTHUR COUNTY SCHOOLS	104.33	1,823,099.57	17,474.68
HOLT	45-0137-000	CHAMBERS PUBLIC SCHOOLS	115.98	2,067,307.27	17,824.37
BLAINE	05-0071-000	SANDHILLS PUBLIC SCHOOLS	116.31	1,948,689.67	16,754.37
VALLEY	88-0021-000	ARCADIA PUBLIC SCHOOLS	119.24	2,017,986.27	16,924.42
HOLT	45-0029-000	EWING PUBLIC SCHOOLS	121.62	1,879,546.93	15,454.81
FILLMORE	30-0054-000	SHICKLEY PUBLIC SCHOOLS	131.47	2,340,214.68	17,800.69
CUSTER	21-0089-000	ARNOLD PUBLIC SCHOOLS	132.69	2,274,397.73	17,140.22
CHERRY	16-0030-000	CODY-KILGORE PUBLIC SCHS	138.83	1,954,011.27	14,074.73
CUSTER	21-0044-000	ANSLEY PUBLIC SCHOOLS	145.72	2,346,225.49	16,101.17
HAMILTON	41-0091-000	HAMPTON PUBLIC SCHOOLS	145.86	2,459,816.22	16,864.00
THAYER	85-2001-000	BRUNING-DAVENPORT UNIFIED SYS	153.11	3,707,960.62	24,217.42
GRANT	38-0011-000	HYANNIS AREA SCHOOLS	153.25	2,269,818.39	14,811.33
CEDAR	14-0101-000	WYNOT PUBLIC SCHOOLS	156.36	1,786,808.12	11,427.61
BANNER	04-0001-000	BANNER COUNTY PUBLIC SCHOOLS	156.40	2,597,752.15	16,609.73
PAWNEE	67-0069-000	LEWISTON CONSOLIDATED SCHOOLS	156.69	2,499,143.51	15,949.10

Needs & Adjustments

2019/20
ADJUSTMENTS

*Adds Money to the
Formula For....*



Community Achievement Plan Allowance

Only applies to school districts that are members of a Learning Community

- .4643% of the statewide average GFOE per formula student X total learning community formula students
- Distribution based on 2% of poverty/LEP allowances and poverty students exceeding 40% of formula students X 3% of the statewide GFOE per formula student
- \$6.5M to 11 school districts

Student Growth Adjustment

District Basic Funding per student

X

Approved Student Growth

- \$10.6M to 27 school districts

Two Year New School Adjustment

1st Year

- District Basic Funding per Student X 20% of estimated student capacity

2nd Year

- District Basic Funding per Student X 10% of estimated student capacity
- \$7M to 14 school districts

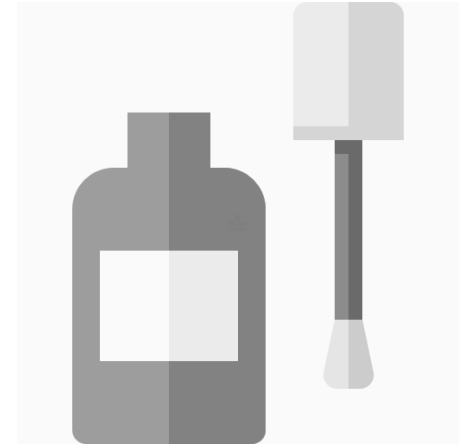
System Averaging Adjustment

- Districts with more than 900 students (43 in 2019-20)
- Districts with basic funding per student less than the average for all school districts with more than 900 students (19 in 2019-20)
- \$26.8M to 19 school districts

Needs & Corrections

OCCURS....Two years after the district receives the allowance.
Compares the estimated to what actually occurred.

WHY.....Aligns the funding with when the expenditure or
student growth is expected.



Poverty & Limited English Proficiency Corrections

- Subtract any excess allowance received
- Penalized if expenditure requirements are not met
- LEP – Disqualified for current Year; minimum spending requirements are not met

Student Growth Correction

- An amount added or subtracted
- Aligns with actual student growth

Step 2 – Calculating Resources

- The formula determines the revenue sources that are the components of resources.

Components of Resources



YIELD FROM LOCAL EFFORT RATE

- Property tax capacity
- Local Effort rate – hypothetical tax rate
- Applies a tax rate to valuations



NET OPTION FUNDING

- Provides funding for the additional students being educated
- Enrollment Option Program



ALLOCATED INCOME TAX

- Distributes a percentage of individual income taxes back to the school district



OTHER ACTUAL RECEIPTS

- Power district sales tax
- Fines/license fees
- Tuition
- Interest
- Special Education
- State Wards
- Motor vehicles
- Non-Categorical Federal Funds



COMMUNITY ACHIEVEMENT PLAN AID

- Aid for cooperative programs in the Learning Community
- Sharing of administrative and instructional staff for approval and accreditation requirements

REVENUE SOURCES

Yield from Local Effort Rate

- An amount generated by a theoretical tax rate.
- All valuation is adjusted to 96% for residential/commercial/industrial and 72% for agricultural land.
- Each school district has the same (theoretical) tax rate.

Net Option Funding

Net Option Students

X

Statewide Average Basic Funding per formula student
(\$9,797.20)

Allocated Income Tax

- Percentage of Income tax collected on district residents
- Capped in early 1990's, now 2.23%

Step 3 – Calculating Equalization Aid

Needs

Minus

Resources

=

Equalization Aid

Equalization Aid

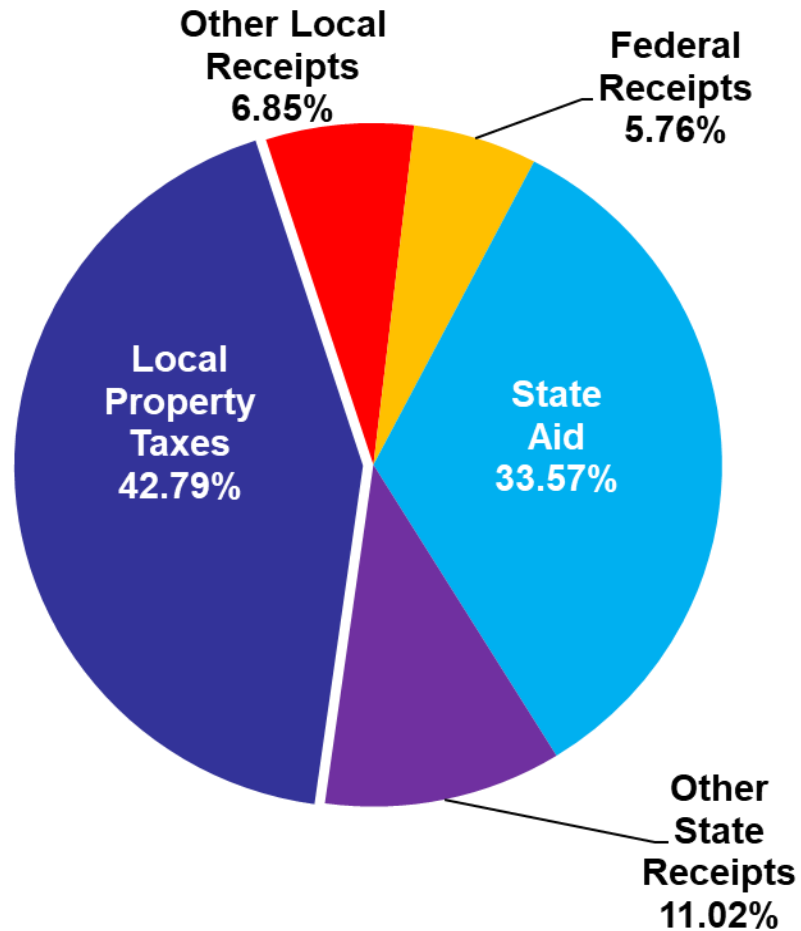
- A school district will receive equalization aid when its needs exceeds its resources.
- Equalization Aid is meant to bridge the difference between what the formula determines a school district needs to educate its students and its available resources.

Non-Equalized School Districts

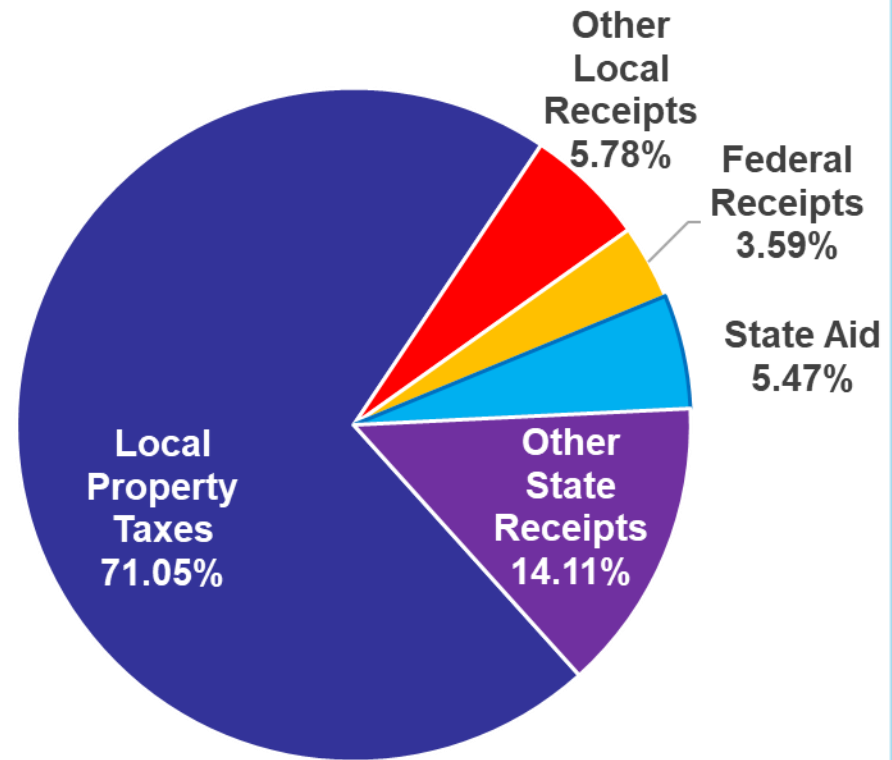
- Schools that have resources greater than their needs are non-equalized school districts.
- Means these schools do not receive Equalization Aid.
- 163 of 244 school districts (67%) were non-equalized in 2019/20.

How These Inequities Play Out

Equalized District



Non-Equalized District



Equalized and Non-Equalized

Equalized

- Mostly urban and tribal land districts
- Near or at their levy limits
- Needs greater than resources despite receiving equalization aid

Non-equalized

- Mostly rural and agricultural districts
- High dependence on local property taxes, even without being near levy limits
- State not contributing equalization aid

FORMULA STUDENTS CALCULATION

(	Fall Membership	x	ADM/FM Ratio	)	+	Contracted Out	=	Formula Students
(	547	x	0.9929678235	)	+	0	=	543.15
KDG Adjustment		(	0 students	x .5	)	times ADM Factor	=	0.00
Early Childhood (002)	(	34 students	x	472.0 hours / 1,032 hours	x .6)		=	9.33
Total Formula Students								552.48

FORMULA NEEDS CALCULATION

Basic Funding	6,678,435.00
Poverty Allowance	327,608.00
Limited English Proficiency Allowance	287,119.00
Focus School & Program Allowance	0.00
Summer School Allowance	0.00
Special Receipts Allowance	371,280.00
Transportation Allowance	120,253.00
Elementary Site Allowance	0.00
Distance Education & Telecommunications Allowance	8,936.00
Averaging Adjustment	0.00
New School Adjustment	0.00
Student Growth Adjustment	0.00
Community Achievement Plan Adjustment	0.00
Limited English Proficiency Allowance Correction	0.00
Student Growth Adjustment Correction	0.00
Poverty Allowance Correction	0.00
Non Qualified LEP Adjustment	0.00
Total Calculated Formula Needs	7,793,631.00
Formula Needs Stabilization	0.00
Total Formula Needs	7,793,631.00

FORMULA RESOURCES CALCULATION

Yield From Local Effort Rate	619,097,336 / 100 x 1.0000000000	6,190,973.00
Net Option Funding		0.00
Allocated Income Tax Funds		56,621.00
Other Actual Receipts		894,442.00
Community Achievement Plan Aid		0.00
Total Formula Resources		7,142,036.00

STATE AID CALCULATION

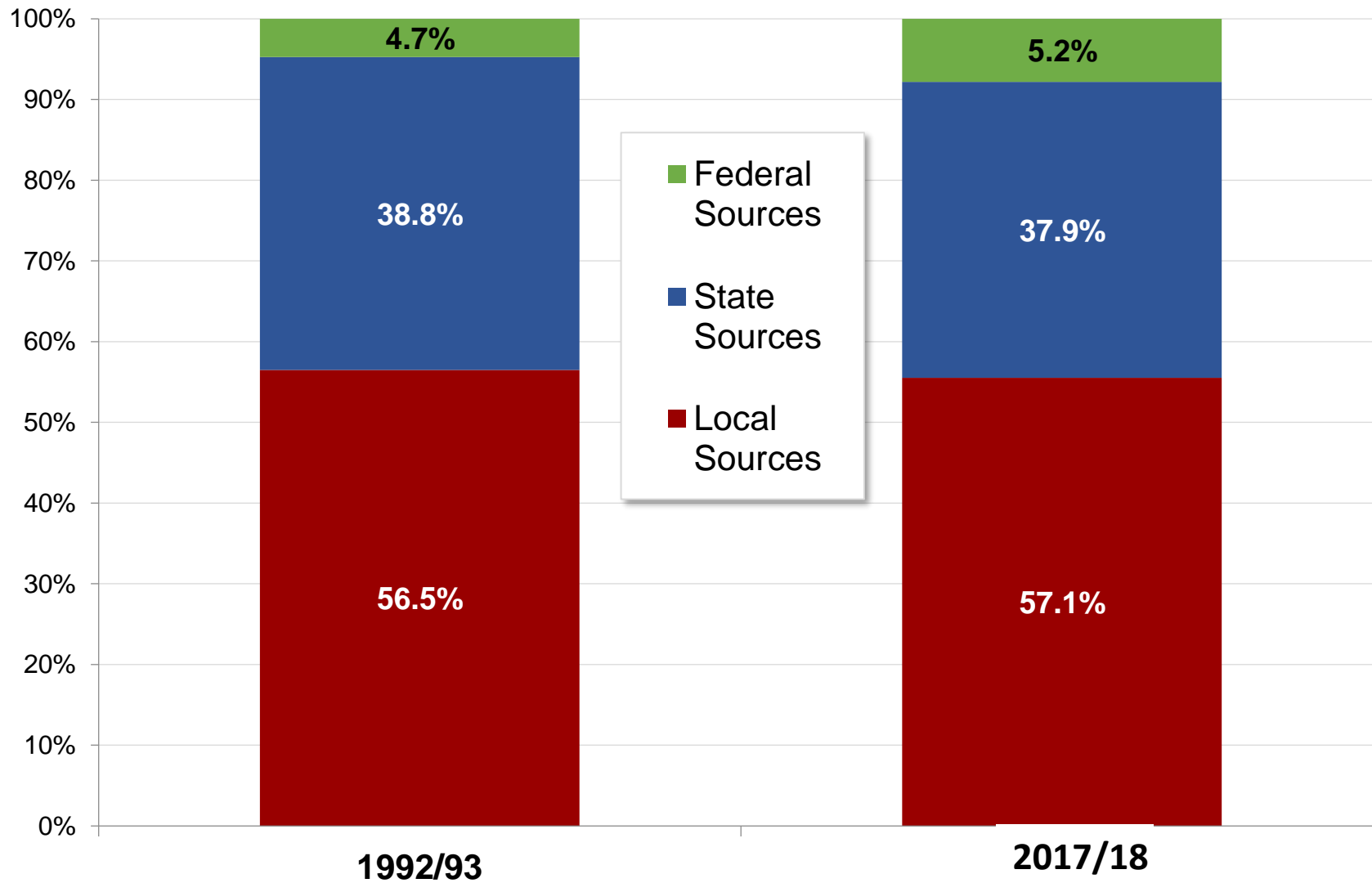
Equalization Aid	651,595.00
Net Option Funding	0.00
Allocated Income Tax Funds	56,621.00
Community Achievement Plan Aid	0.00
Total State Aid Calculated	708,216.00
Prior Year (2018/19) State Aid Correction	(4,662.00)
Total State Aid	703,554.00
Carryover Adjustment from years prior to 2018/19	0.00

State Aid Certification Form

State Support for Nebraska Schools Has Fallen Short of Goals

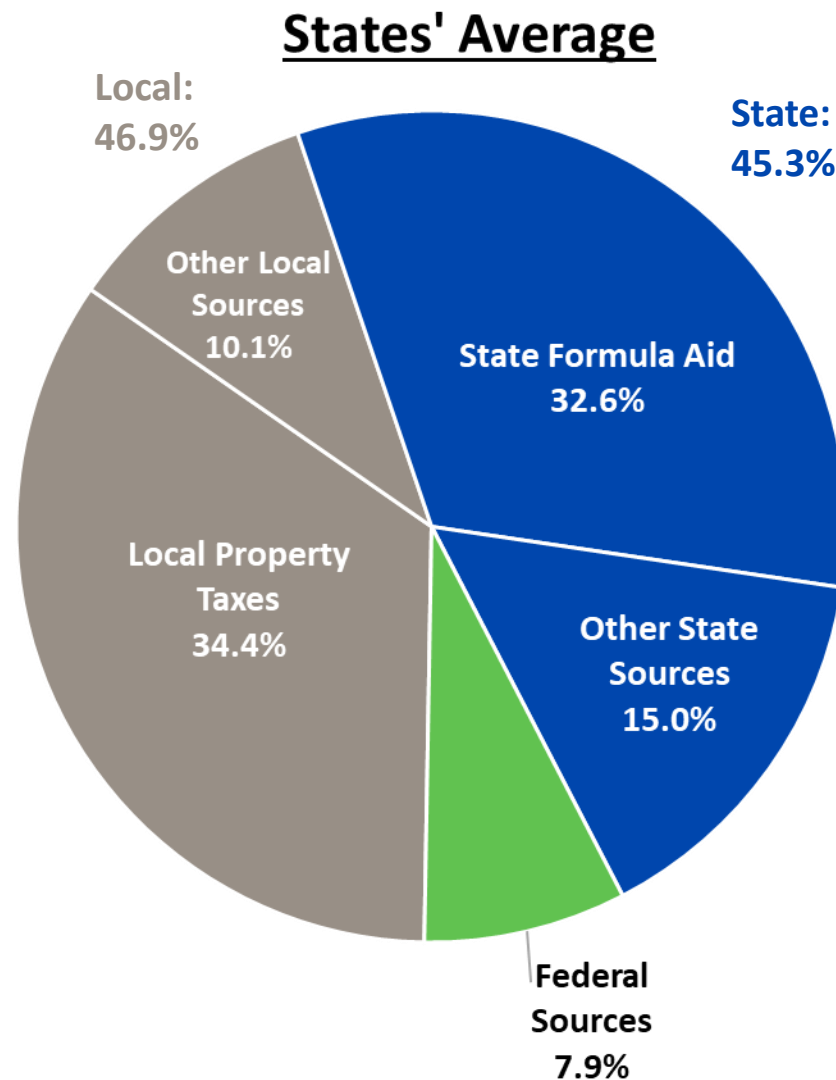
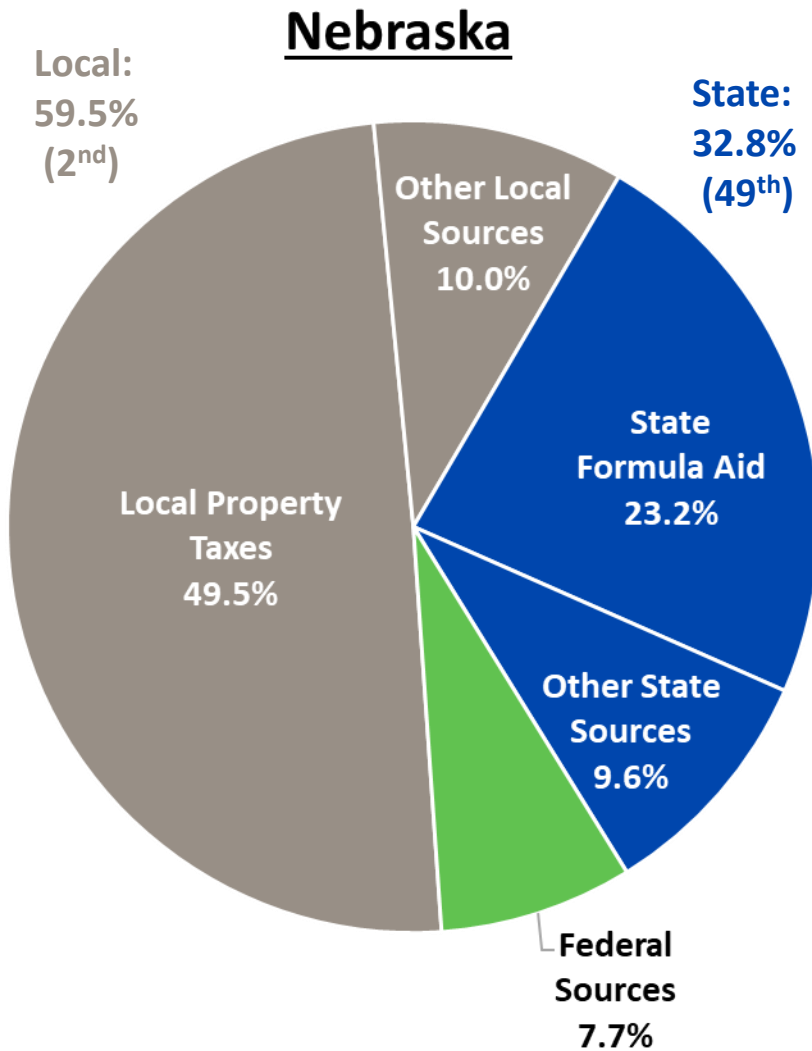
- LB 1059 goal: 45% of operating costs to be funded by the state; state has never funded more than 41% (\$115m).
- Nebraska ranked 49th nationally for the percentage of K-12 funded by state sources in 1990.
- Nebraska still ranked 49th in 2017.

The School Funding Mix has Changed Little From 1992/93 to 2017/18



Sources: Nebraska Department of Education Statewide Annual Financial Reports

Education Funding: Nebraska vs States' Average



Source: US Census Bureau, 2017 Annual Survey of School System Finances.

Heavy Reliance on Property Taxes and Low State Support Creates Per-Pupil Funding Inequities

- States that rely heavily on property taxes to fund schools tend to have large gaps across districts in the amount of money that is spent per pupil to educate children.
- Nebraska's formula attempts to equalize resources by sending more state money to those districts with less property value.
- However, even after state support is included, school districts with high property values are able to spend twice as much per pupil as those with low property values.

Comparing High & Low Property Value Districts

	Top 20% High Property Value Districts (per pupil)	Bottom 20% Low Property Value Districts (per pupil)
Average Assessed Value Per Pupil	\$3,576,401	\$561,369
Average General Fund Tax Levy	\$0.5346	\$1.0155
Average General Fund Tax Property Taxes Levied Per Pupil	\$18,625	\$5,656
Average Equalization Aid Per Pupil	\$0	\$4,370
Total General Fund Expenditures Per Pupil	\$20,661	\$11,297

Differences in Per Pupil Costs

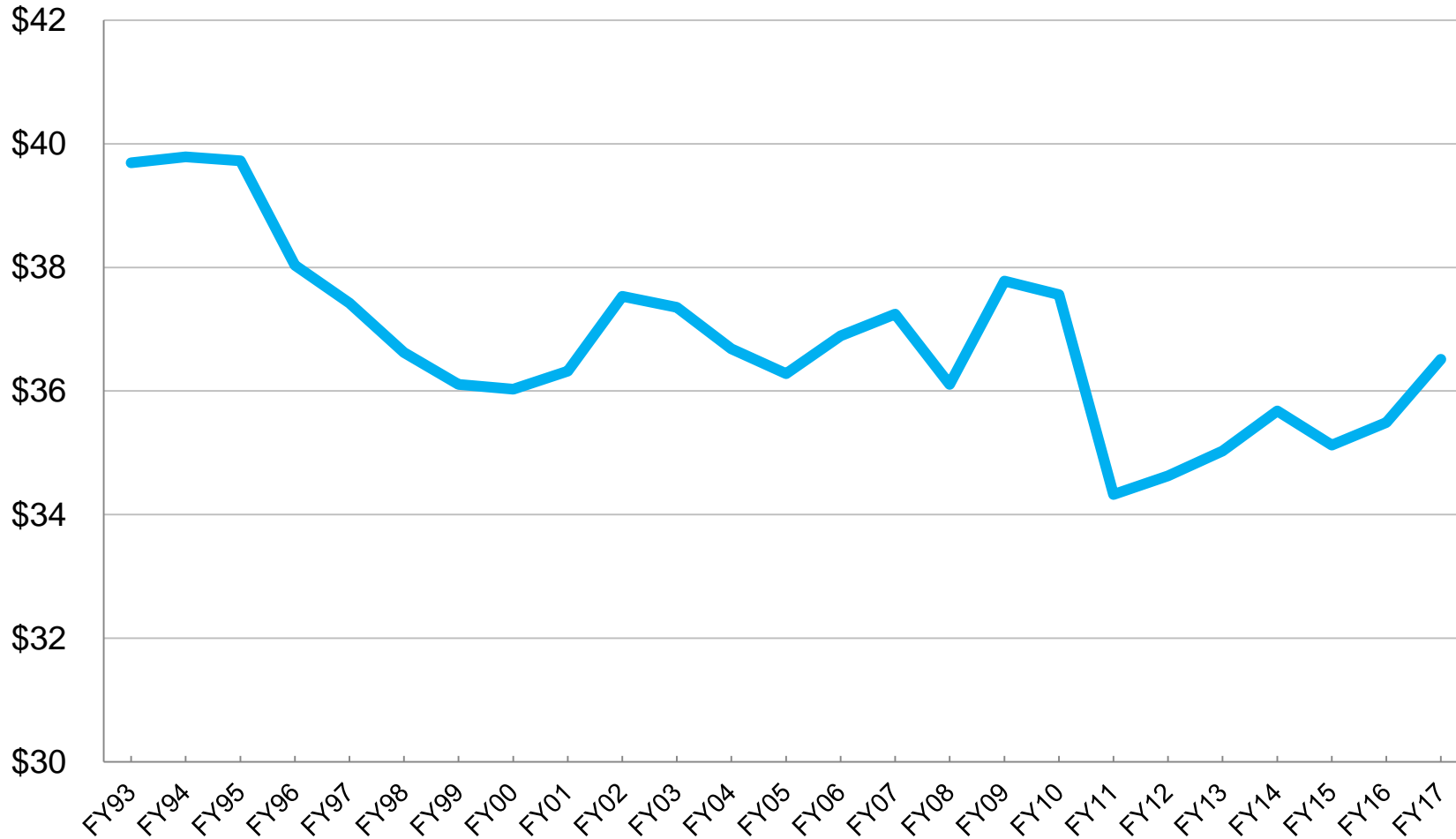
- Per Pupil Cost in FY 2018 - \$13,375
 - Ranges from:
 - \$9,949 in Bennington Public Schools (2,853 students)
 - \$28,783 in Sandhills Public Schools (85 students)
 - Largest districts:
 - OPS - \$12,100
 - LPS - \$11,508

School Spending over Time

- Migration patterns place cost pressures on rural and urban schools alike
- LFO Study: Average growth in school general fund disbursements – 5.7% (FY87-FY97), 3.5% (FY07-FY17)
- State portion of school spending below historical average

School Spending has Decreased as a Share of the Economy

School District Spending per \$1,000 of Nebraska Personal Income



Sources: Schools: Department of Education Annual Financial Reports.

Historical Annual Valuation Growth by Property Type

Growth over previous year, 1999 - 2016

	Agricultural	Residential	Commercial
1999	6.94%	10.59%	9.31%
2000	4.58%	6.14%	17.73%
2001	3.94%	4.60%	6.14%
2002	3.44%	6.67%	4.60%
2003	4.48%	4.12%	6.67%
2004	4.72%	6.86%	4.12%
2005	5.66%	7.37%	6.86%
2006	8.45%	6.53%	7.37%
2007	3.35%	6.16%	6.53%
2008	10.30%	4.22%	6.16%
2009	12.28%	0.83%	4.22%
2010	11.75%	3.17%	0.83%
2011	11.69%	3.57%	3.17%
2012	12.82%	2.17%	3.57%
2013	22.93%	2.18%	2.17%
2014	29.43%	4.91%	2.18%
2015	19.36%	4.57%	4.91%
2016	6.24%	4.54%	2.49%
2017	-0.15%	6.50%	5.82%

Sources: Nebraska Department of Revenue Property Assessment Division

District Budgets are Limited

- Limits to budget growth – Basic Allowable Growth Rate of 2.5% per year
- Limits to property tax levies - \$1.05 per \$100 of property value
- Limits to budgeted cash reserves – based on school size (20% to 45%).

Levy Exclusions	Expenditure Exclusions
Voluntary Terminations	Voluntary Terminations
Judgments not covered by Liability Insurance	Judgments not covered by Liability Insurance
Bonded Indebtedness	Repairs to Infrastructure
	Distance Education
	Increased Retirement Contribution
	Early Childhood Grants
	New Elementary Site
	Native Impact Aid
	SPED Budget
	Special Grant Funds
	Retirement Incentive/Staff Development

Addressing Inequities in Educational Opportunities

- Courts have left this decision to the Legislature.
- Nebraska Constitution: The Legislature shall provide for the free instruction in the common schools of the state.
- The Constitution does not define how to provide equity in educational opportunities.

Our Conclusions

- The state aid formula is not necessarily broken.
- But it has never really been allowed to work as intended, as it has changed almost every year to fit the budget.
- As a result, it never met state aid goals.
- And continues to be heavily reliant on local resources, more than any other state in the country.

Policy Issues

- K-12 Education makes up 28.11% of General Fund Appropriations
- TEEOSA is often used to help balance the budget
- 2 Levers
 - Local Effort Rate
 - Basic Allowable Growth Rate

Policy Issues

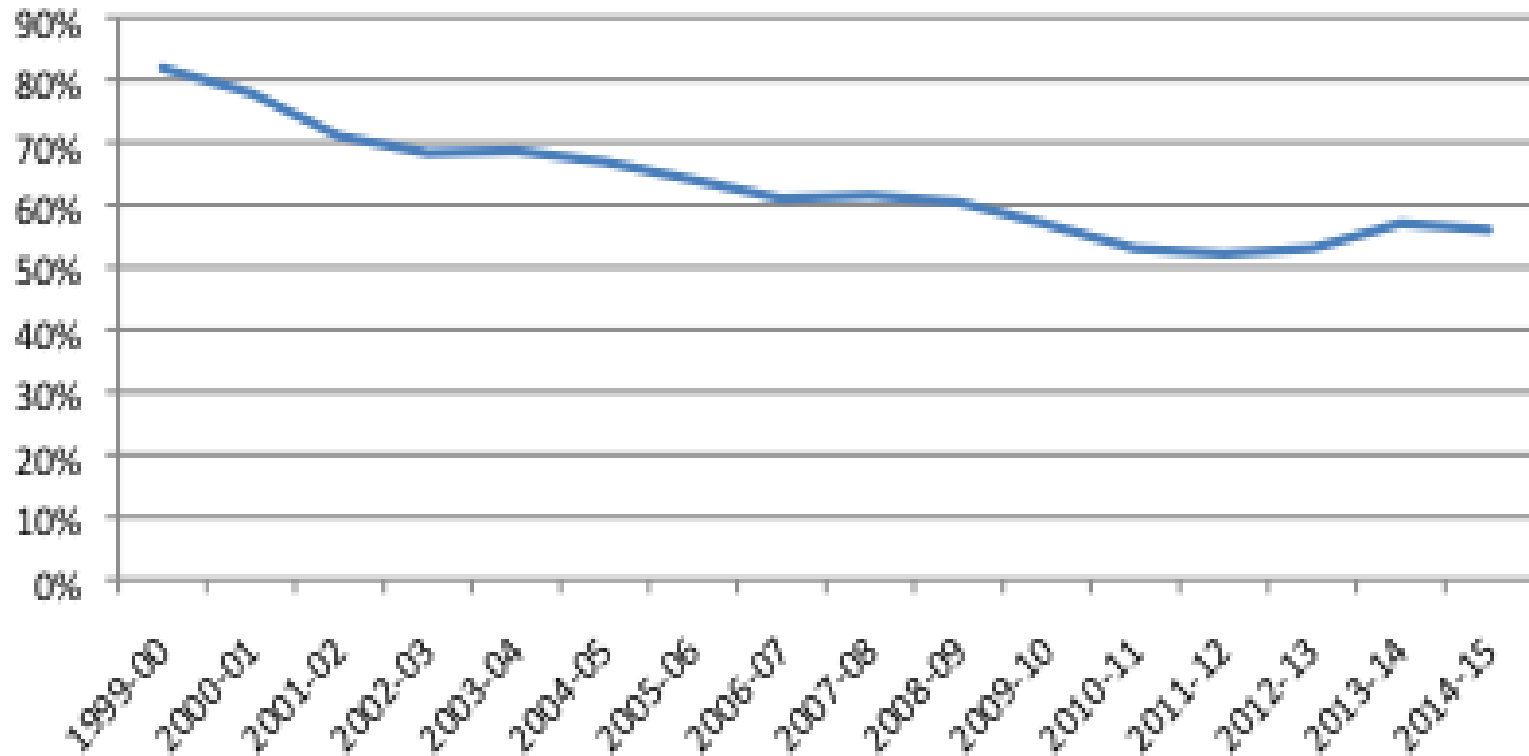
- LB 675 decreased funding for TEEOSA by \$24.6M by amending State Statute 77-3446 decreasing the base limitation (basic allowable growth rate) for school districts from 2.5% to 2% for school fiscal year 2019-20

Policy Issues

- Early Childhood
- Foundation Aid
- Property Tax Credit Fund
- Special Education

Special Education – 2nd Largest Source of State Support

State-Funded Share of Special Education Spending Has Declined



Major Tax Proposals

- LB 289 (Revenue Committee)
 - Local formula contribution rate
 - Eliminates averaging adjustment
 - Replaces allocated income tax with foundation aid (\$3,500 per student)
 - Changes the multiplier for net option funding
 - Limits school budget growth to Consumer Price Index
 - Reduces the maximum levy from \$1.05 to \$0.05 plus a local formula contribution rate

What Surrounding States Do?

- Foundation aid component
- Additional funding for ELL, special education and students living in poverty
- School Finance Review Committee – monitor trends to see if changes are needed over time
- Categorical funding for specific purposes such as poverty and ELL

Taxable Value of Property

- The Nebraska Constitution provides for taxes to be levied by valuation uniformly and proportionately upon all real property
- Statute provides that all real property, except ag land is valued at its actual value – 100%
- Ag Land is valued at 75% of its actual value

Property Assessment Calendar

- Process of assessing real property begins on January 1 of each year
- On or before August 20, County Assessor certifies assessed valuation to political subdivisions
- September 20th political subdivisions adopt their budgets
- October 13 – resolutions setting tax requests must be filed

How Do I Calculate My Levy

(Total Tax Request ÷ Assessed Valuation) x 100

(3,484,848 ÷ 350,000,000) x 100

= .995671 Levy



How Much Will My Levy Generate in Property Taxes

$$\begin{aligned} & \text{(Levy x Valuation)} \div 100 \\ & (.97 \times 350,000,000) \div 100 \\ & = \text{\$3,395,000 Property Tax} \\ & \quad \text{Request} \end{aligned}$$

What does a penny of my levy generate in Property Taxes?

Move decimal over 4 spaces to the left on district valuation

\$350,000,000 valuation

1¢ equals \$35,000



Parting Questions & Challenges

- In today's economy, is property value the best measure of a community's ability to fund K-12 education?
- How can we utilize the education funding system to provide an adequate education for all students?
- How can we ensure we are providing resources to schools with the greatest needs?
- How can we make sure the resources that are provided will have the greatest impact on the success of each student?

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