



Clear thinking for  
a stronger Nebraska

# TEEOSA 101

Candidate Education Session

May 19, 2020

# 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

- Tax Equity and Educational Opportunities Support Act (TEEOSA) 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.
- Provided a sustainable revenue source other than property taxes to keep pace with the increasing costs of operating the public school system.

## State Sources of Revenue

- Accounted for \$1.45 billion (37%) of the total revenue for school districts in 2018/19 (homestead exemption, property tax credit, pro-rate motor vehicle, apportionment)
- State aid is the largest source of state funding.
  - \$1 billion (26%) of total revenue for school districts in 2018/19.
  - \$848 million of state aid was equalization aid.

# Other Sources of K-12 Funding

## Local Sources:

- Property taxes
- Motor vehicle taxes
- Other local sources

## Federal Sources:

- ESSA/NCLB (low-income students)
- IDEA (special ed)
- Categorical grants
- Impact aid



# 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 2020/21, 160 of 244 school districts were non-equalized – they received no equalization aid.

# Calculating Equalization Aid in TEEOSA

Needs

-

Resources

=

Equalization Aid

# What are “Needs” & “Resources”?

## Needs:

- Basic Funding
- Allowances (Poverty, LEP)
- Corrections

## Resources:

- Yield from Local Effort Rate (LER)
- Net Option Funding
- Allocated Income Tax

# 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.

# 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  
(\$9,958.33)

# Allocated Income Tax

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

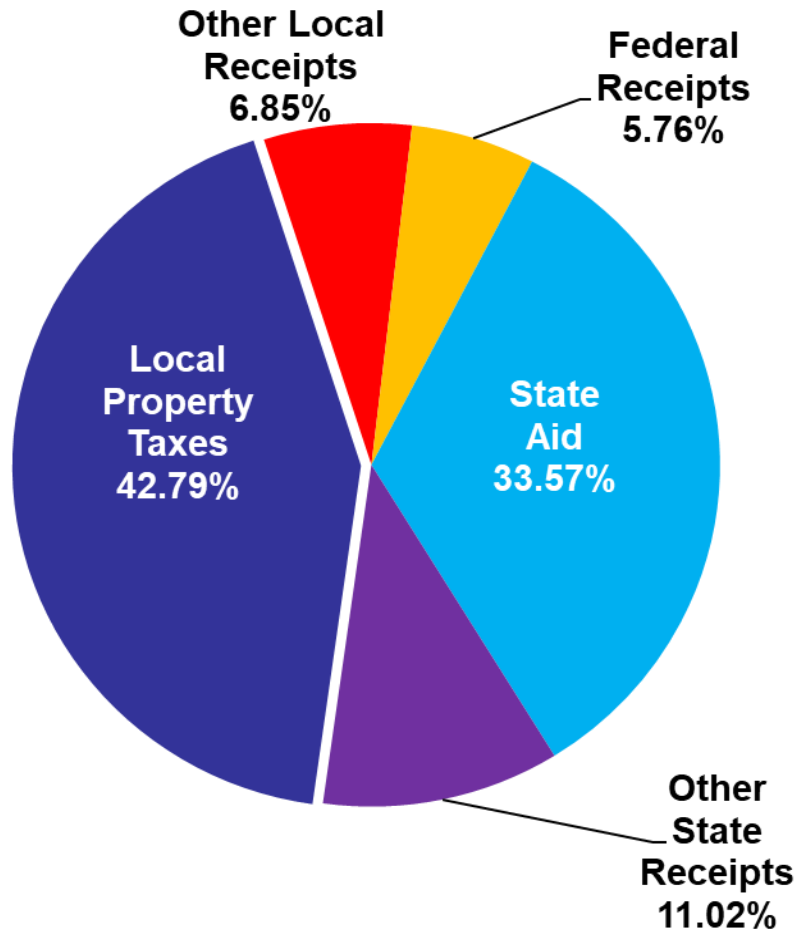


# Non-Equalized School Districts

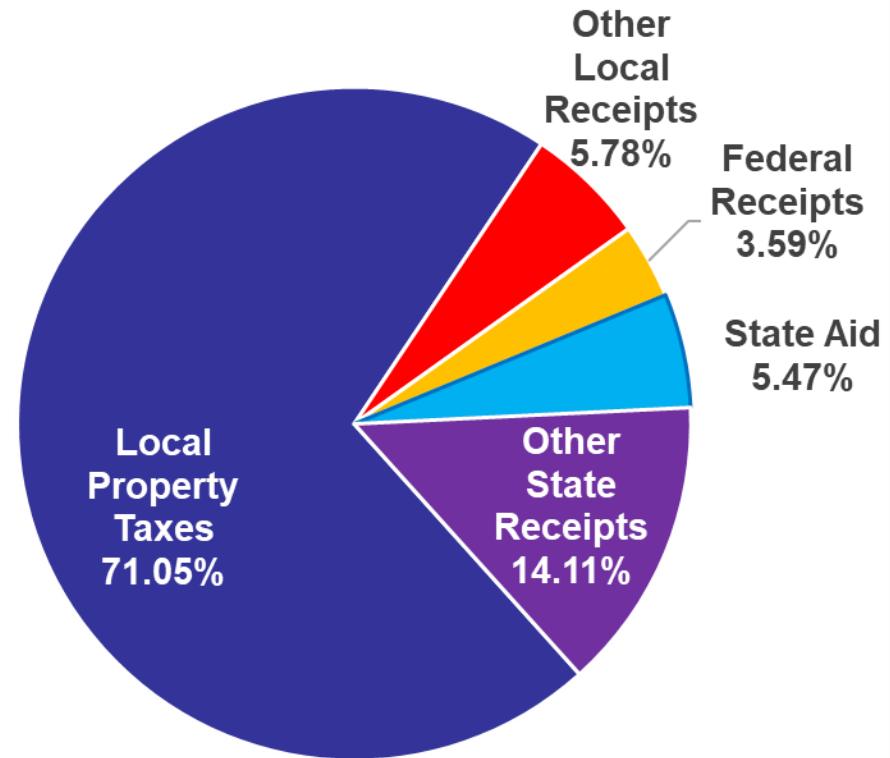
- Schools that have resources greater than their needs are non-equalized school districts.
- Means these schools do not receive Equalization Aid.
- 160 of 244 school districts (66%) were non-equalized in 2020/21.

# 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

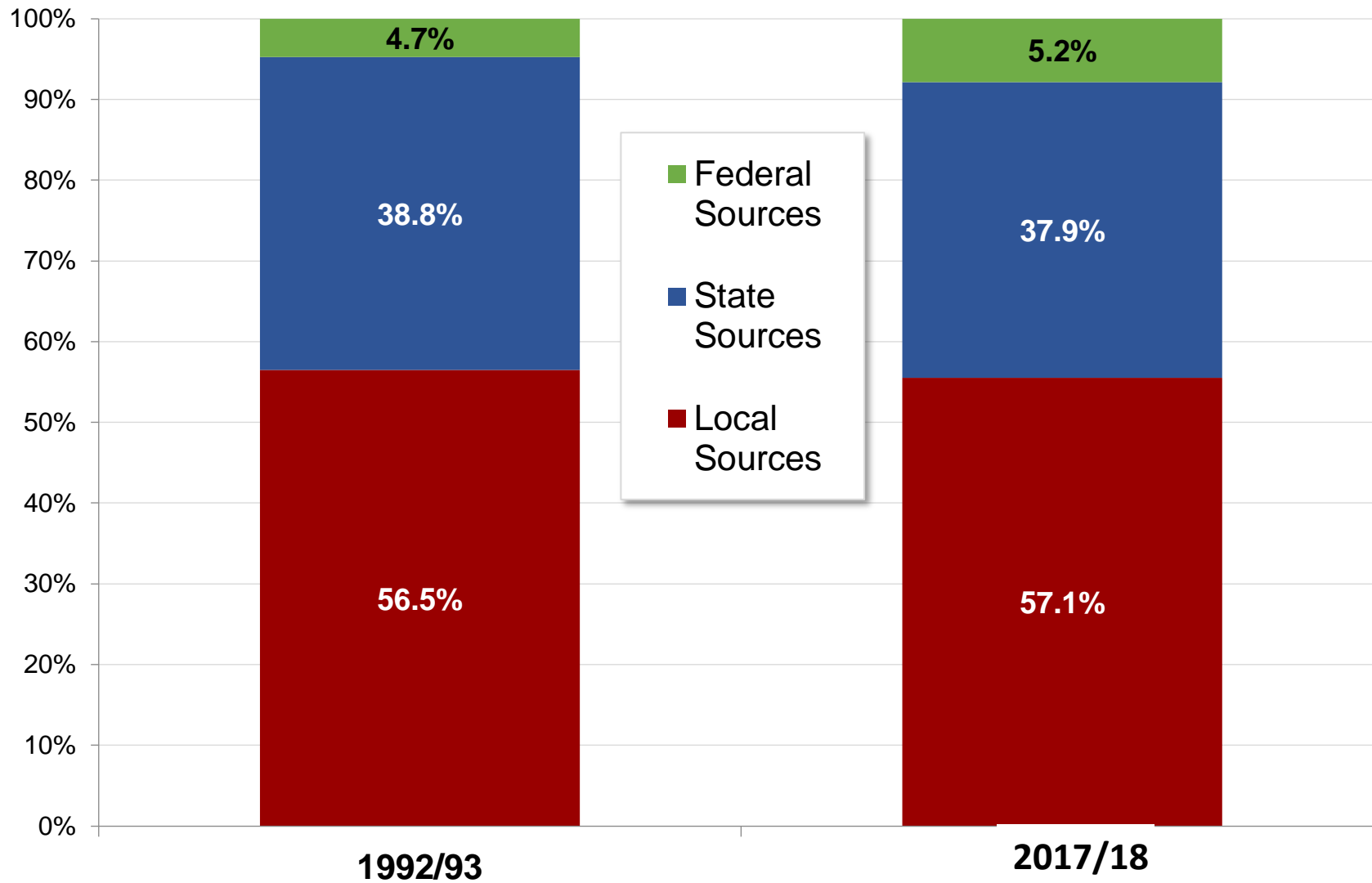
## Non-equalized

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

# State Support for Nebraska Schools Has Fallen Short of Goals

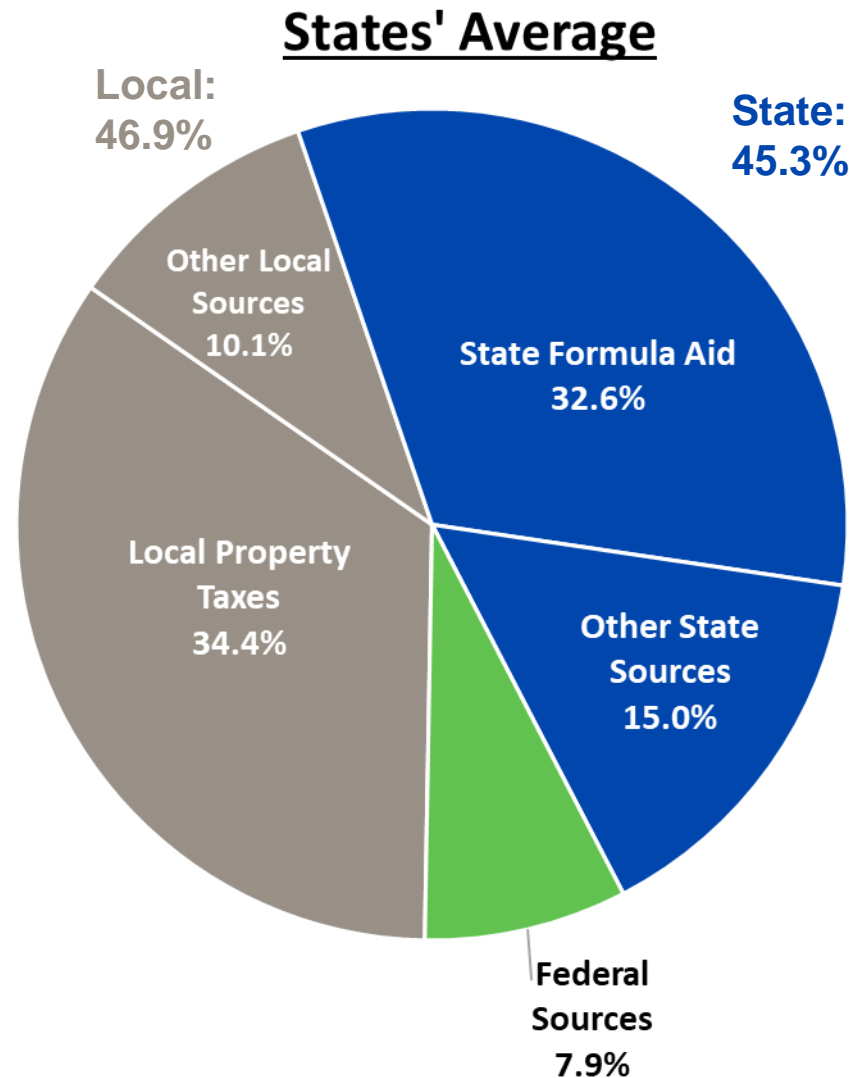
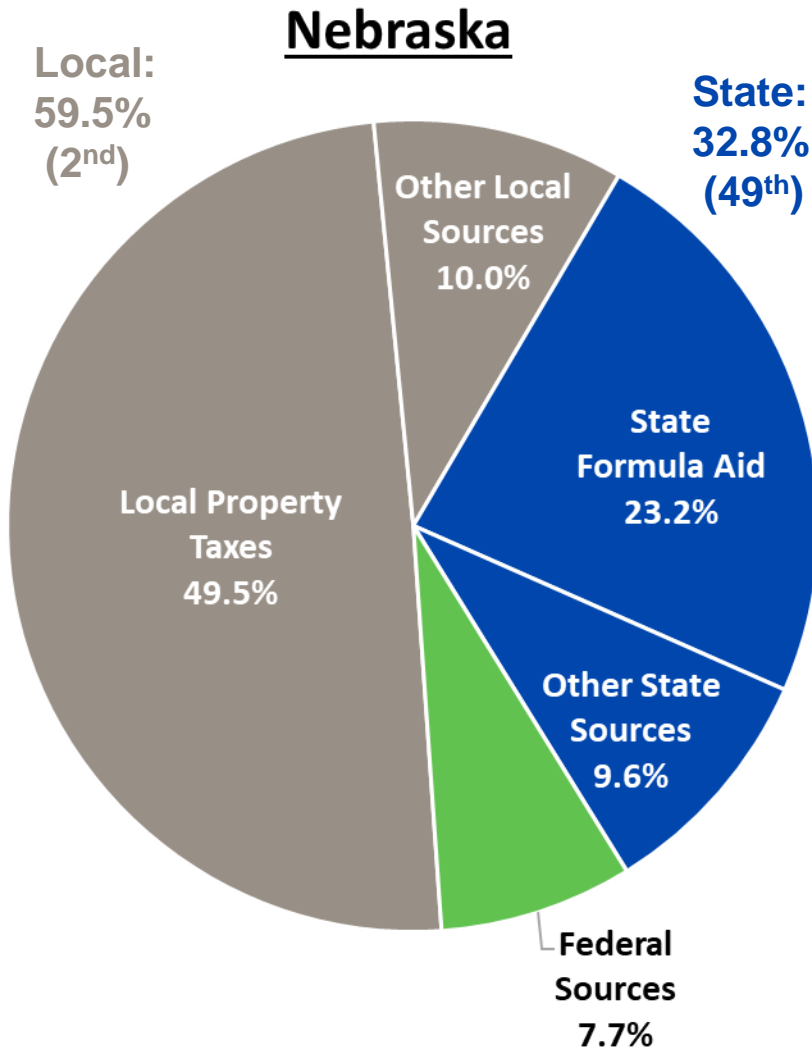
- LB 1059 goal: 45% of operating costs to be funded by the state; state has never funded more than 41%
- Nebraska ranked 49<sup>th</sup> nationally for the percentage of K-12 funded by state sources in 1990.
- Nebraska still ranked 49<sup>th</sup> in 2017.

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



Sources: Nebraska Department of Education Statewide Annual Financial Reports

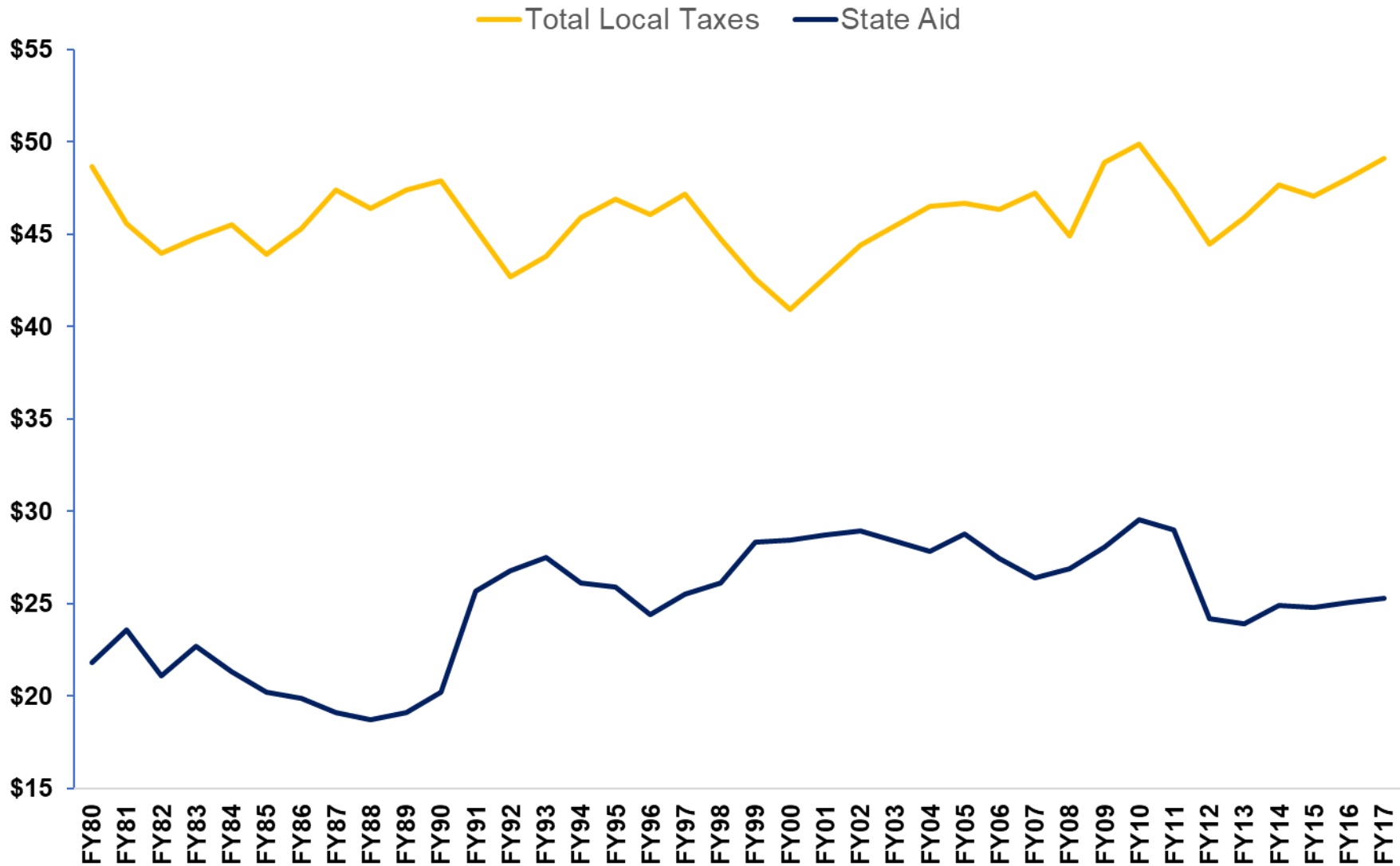
# Education Funding: Nebraska vs States' Average



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

# State Aid and Local Taxes Have Mirrored Each Other

Aid and Taxes per \$1,000 of Nebraska Personal Income



# 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

	<b>Top 20% High Property Value Districts (per pupil)</b>	<b>Bottom 20% Low Property Value Districts (per pupil)</b>
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

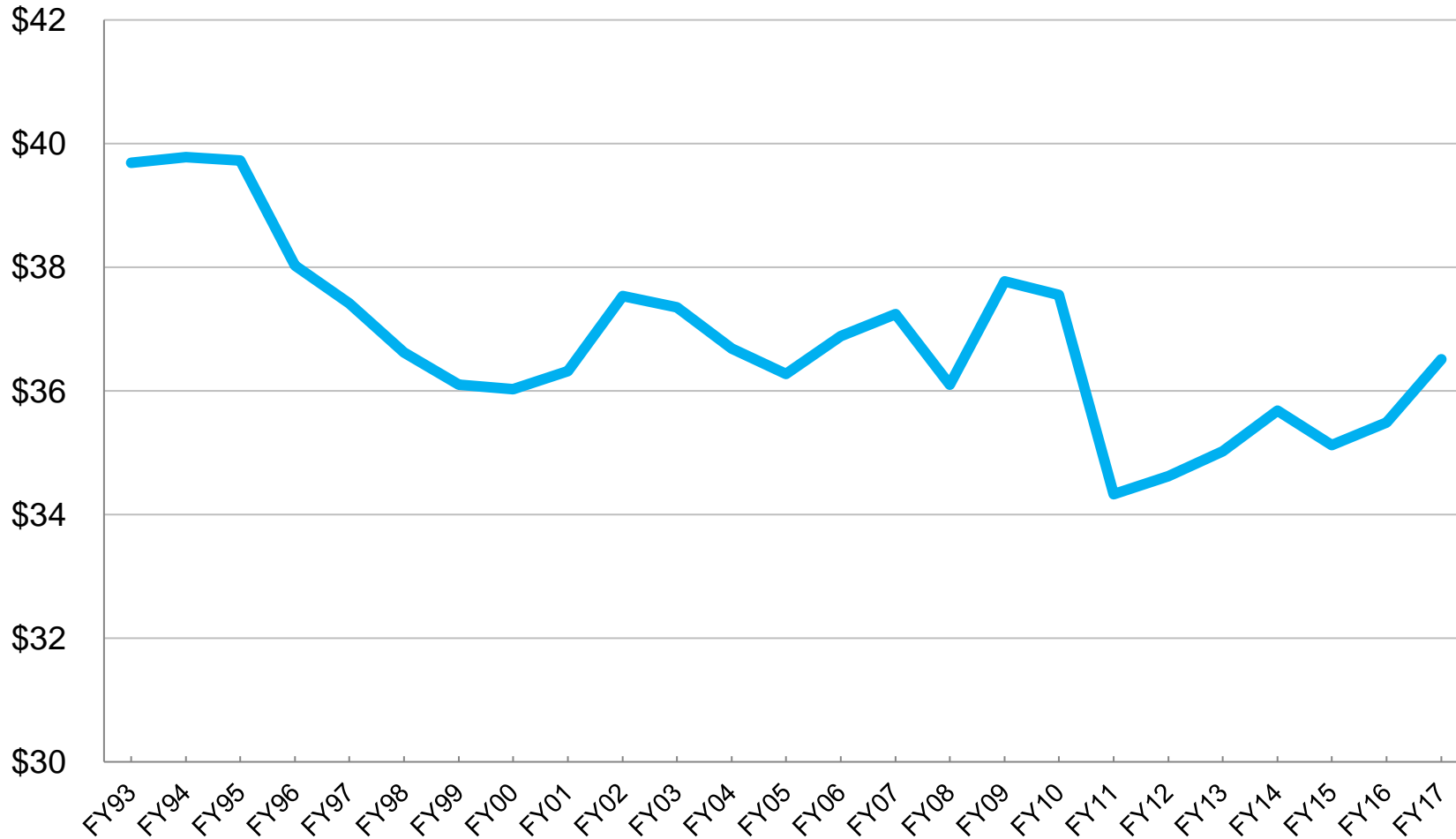
- Per Pupil Cost in FY 2018 - \$13,375
  - Ranges from:
    - \$9,949 in Bennington Public Schools (2,853 students)
    - \$28,783 in Sandhills Public Schools (85 students)
  - Largest districts:
    - OPS - \$12,100
    - LPS - \$11,508

# 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.

# 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.

# Property Tax Discussions in 2020

\*All new revenue appears to be off the table

## **LB1106 projected to cost \$519M/over 3 yrs)**

- Lower ag land valuation (in/outside TEEEOA) by 20% over 3 yrs
- Lower residential/commercial (in/outside TEEEOA formula) by 13% over 3 yrs
- Foundation aid per student- 15% of state net sales and income tax revenue
- Limits spending growth to 2%
- Modifies maximum levy to the lesser of \$1.05 or local formula contribution (yr 4)
- Eliminates averaging adjustment and AIT, reduces net option funding
- Reduces building fund from 14 to 6 cents
- Schools with unused budget authority lose accumulated authority prior to FY21
- Provides 3 yrs of decreasing transition aid for schools with levies at \$1.05+ to the extent it's appropriated.
- **ALL SCHOOL DISTRICTS OPPOSE**

## **LB 1073 (Sen. DeBoer - \$130M/yr)**

- A combination of lowering the local effort rate (LER), lowering the value of agricultural land in the TEEEOA formula and funding for "basic needs"
- Committee would review formula regularly

## **Alternative ideas**

- Put more money into the PTCP and/or Special Education funding