



# An Overview of Nebraska's K-12 Education Funding System

May 17, 2022

# Today's Agenda

- History of TEEOSA
- How the State Aid Formula Works
- How It's Going

# Key Points

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

# History of TEEOSA

# 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

# 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 (36%) of the total revenue for school districts in 2020/21 (homestead exemption, property tax credit, pro-rate motor vehicle, apportionment)
- State aid is the largest source of state funding
  - \$1 billion (25%) of total revenue for school districts in 2020/21
  - \$880 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

# How the State Aid Formula Works

# The State Aid Formula

- Intended to reduce school districts' heavy reliance on property taxes
- Is complex to account for the unique needs and differences of Nebraska's 244 school districts

# Calculating Equalization Aid in TEEOSA

Needs

-

Resources

=

Equalization Aid

# Important Distinction between State Aid and Equalization Aid

- All school districts receive state aid
- Not all school districts receive equalization aid
- In 2022/23, 158 of 244 school districts were non-equalized – they received no 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  
(\$10,625.10)

# Allocated Income Tax

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

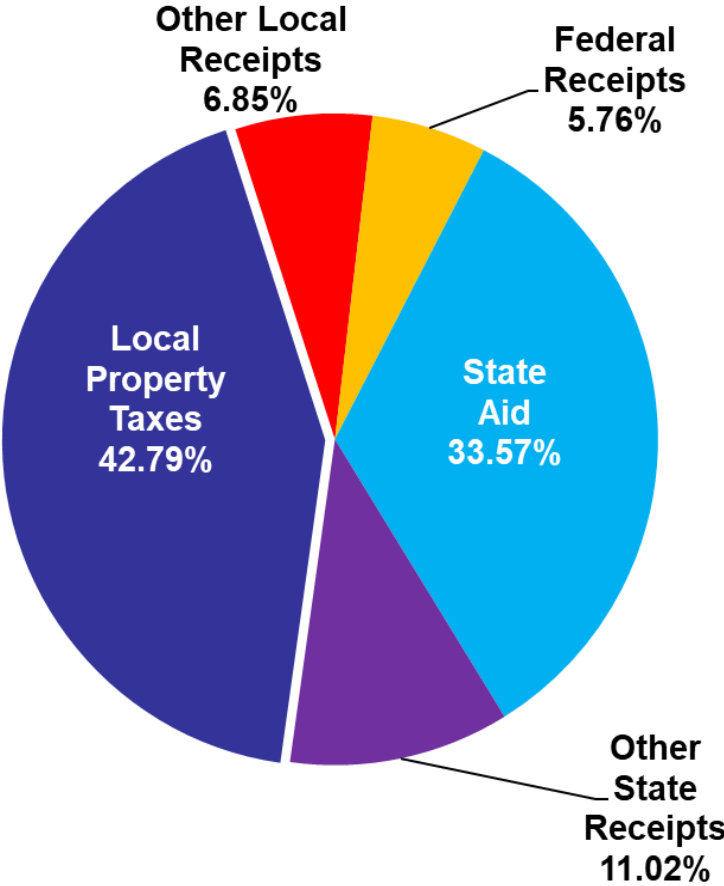
# How It's Going

# Non-Equalized School Districts

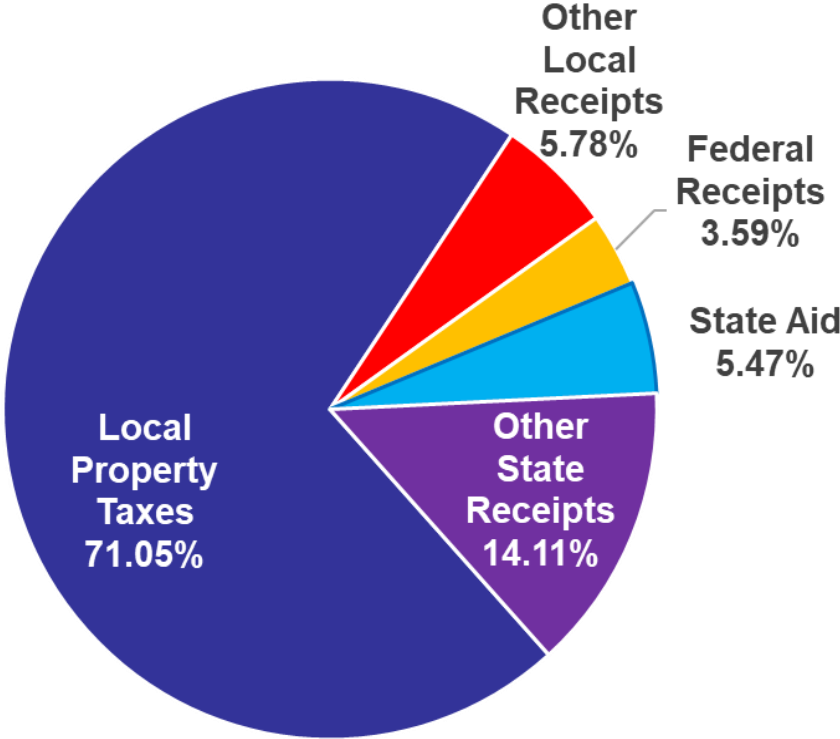
- Schools that have resources greater than their needs are non-equalized school districts
- Means these schools do not receive Equalization Aid
- 158 of 244 school districts (65%) were non-equalized in 2022/23

# 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

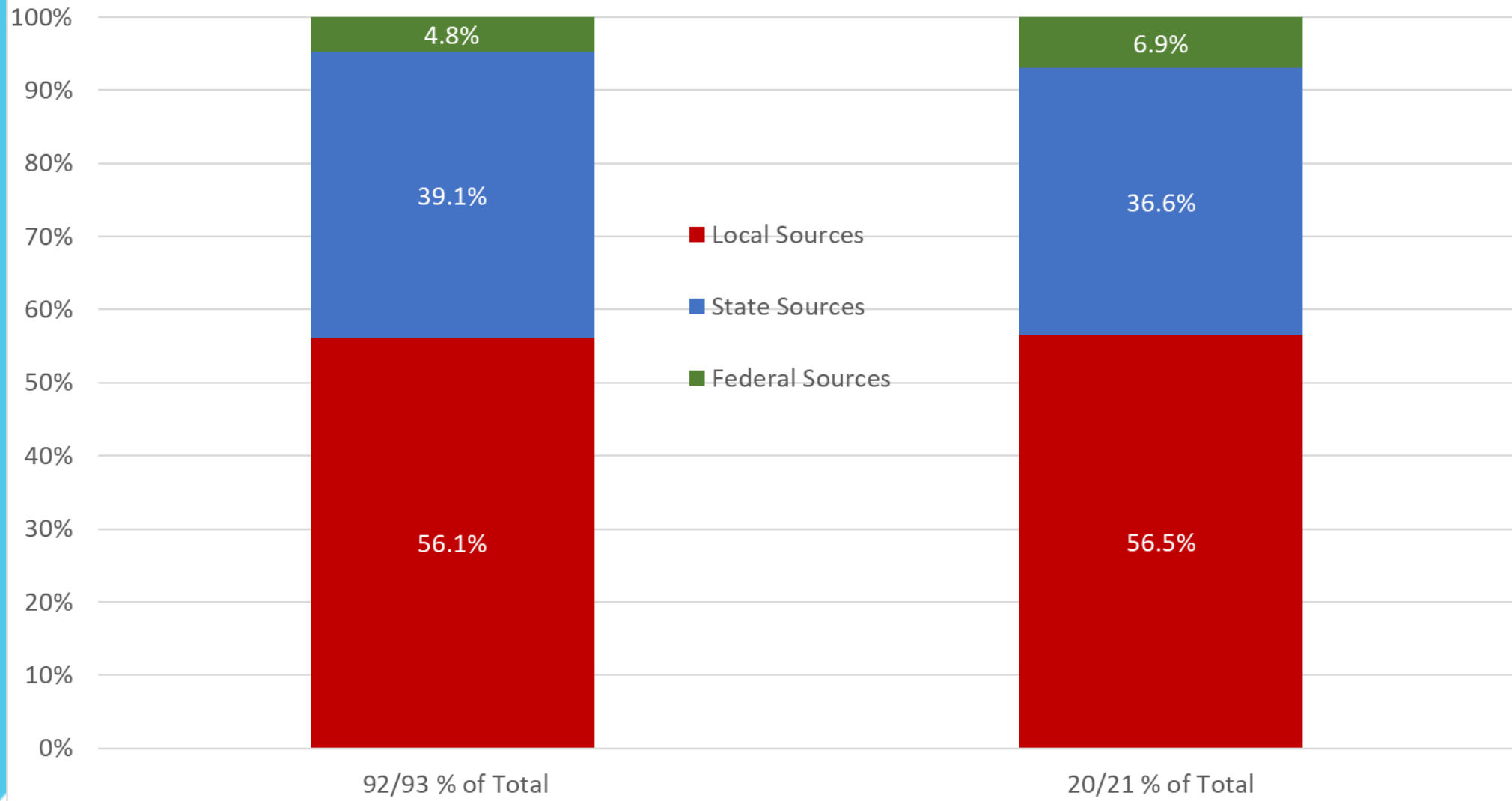
- Mostly rural and agricultural districts
- High dependence on local property taxes, even without being near levy limits
- State not contributing equalization aid



# State Support for Nebraska Schools Has Fallen Short of Goals

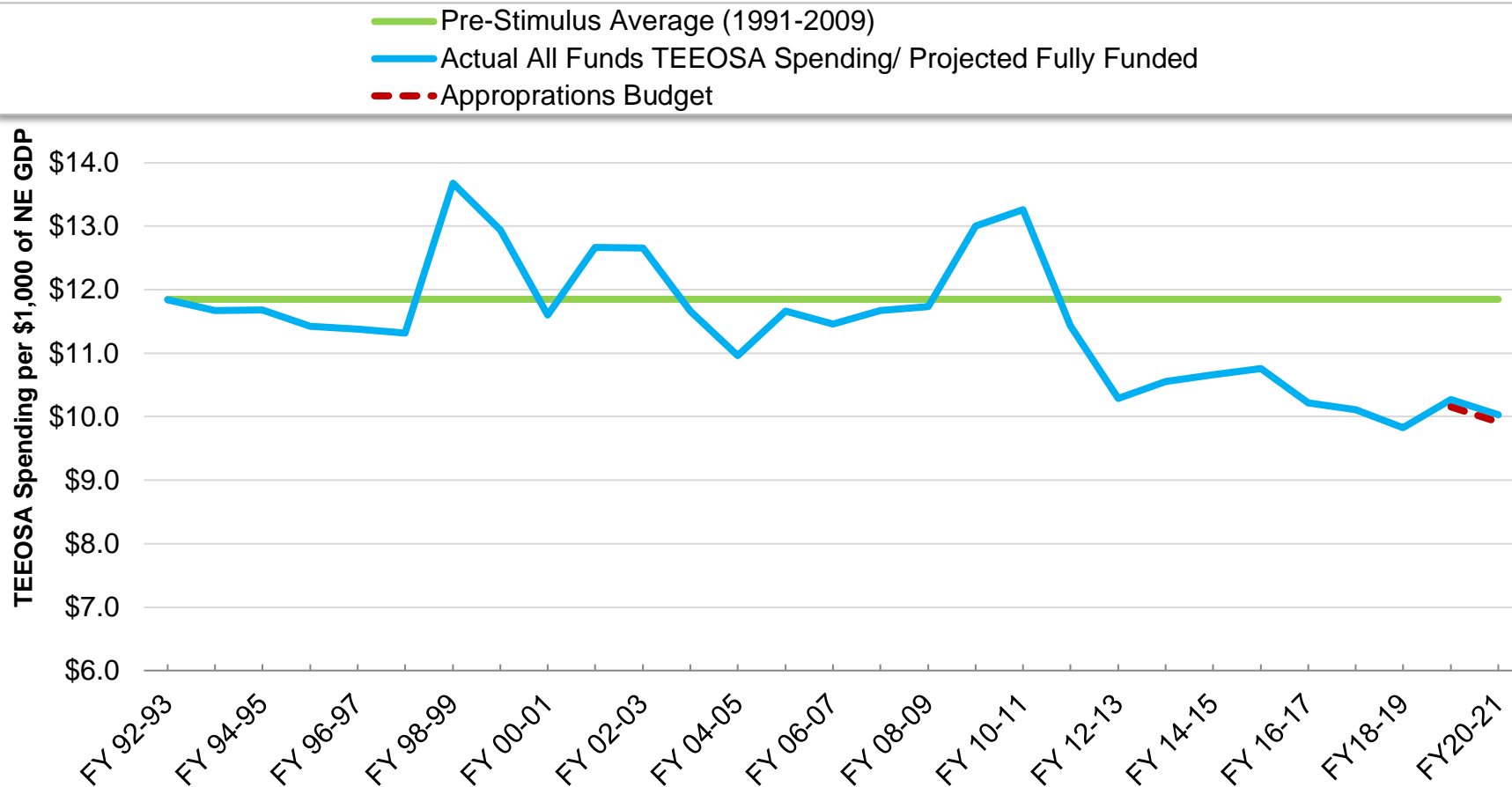
- Goal: **45%** of state's educational system should be funded by state sources
- Today: **32.5%** of state school system is funded by state sources (49<sup>th</sup>)
- Would need to provide an additional **\$470m** in state aid to get to national average

# The School Funding Mix has Changed Little From 1992/93 to 2020/21



# State's School Funding Commitment below Historic Average

State's School Funding Commitment below Historic Average



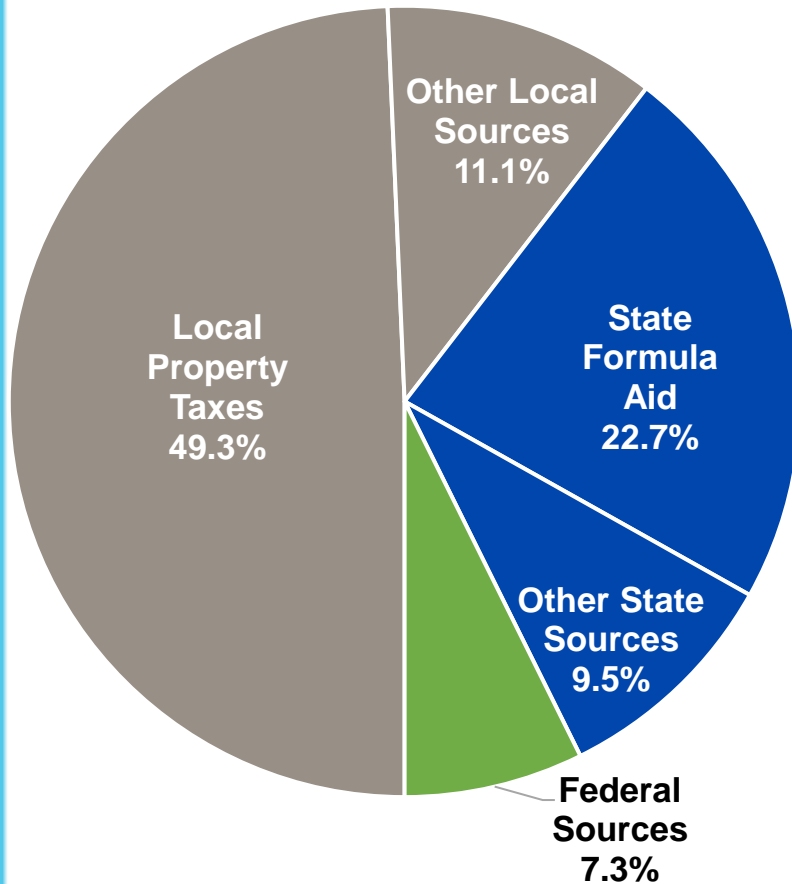
Sources: Spending data from Legislative Fiscal Office; Personal Income from US Bureau of Economic Analysis; Personal Income Projections Imputed From Historical Data; Note: \$58.6 million in federal Education Jobs money is shown here in the year it was spent, FY12, rather than the year it was received, FY11.

# Education Funding: Nebraska vs States' Average

Local:  
60.4%  
(2<sup>nd</sup>)

## Nebraska

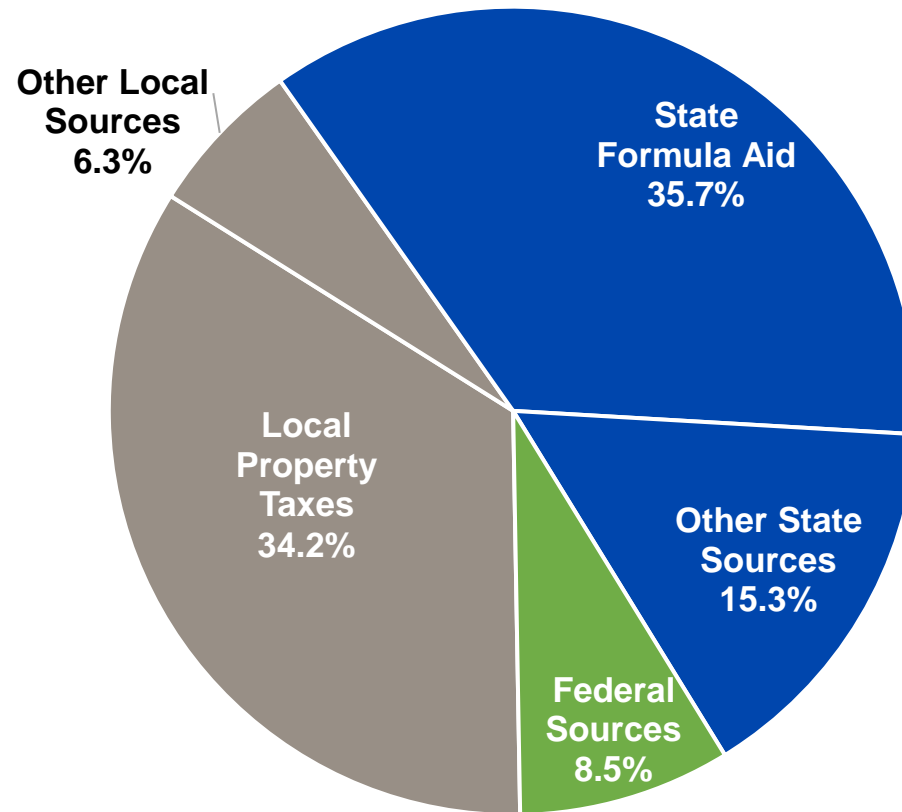
State:  
32.2%  
(49<sup>th</sup>)



Local:  
40.5%

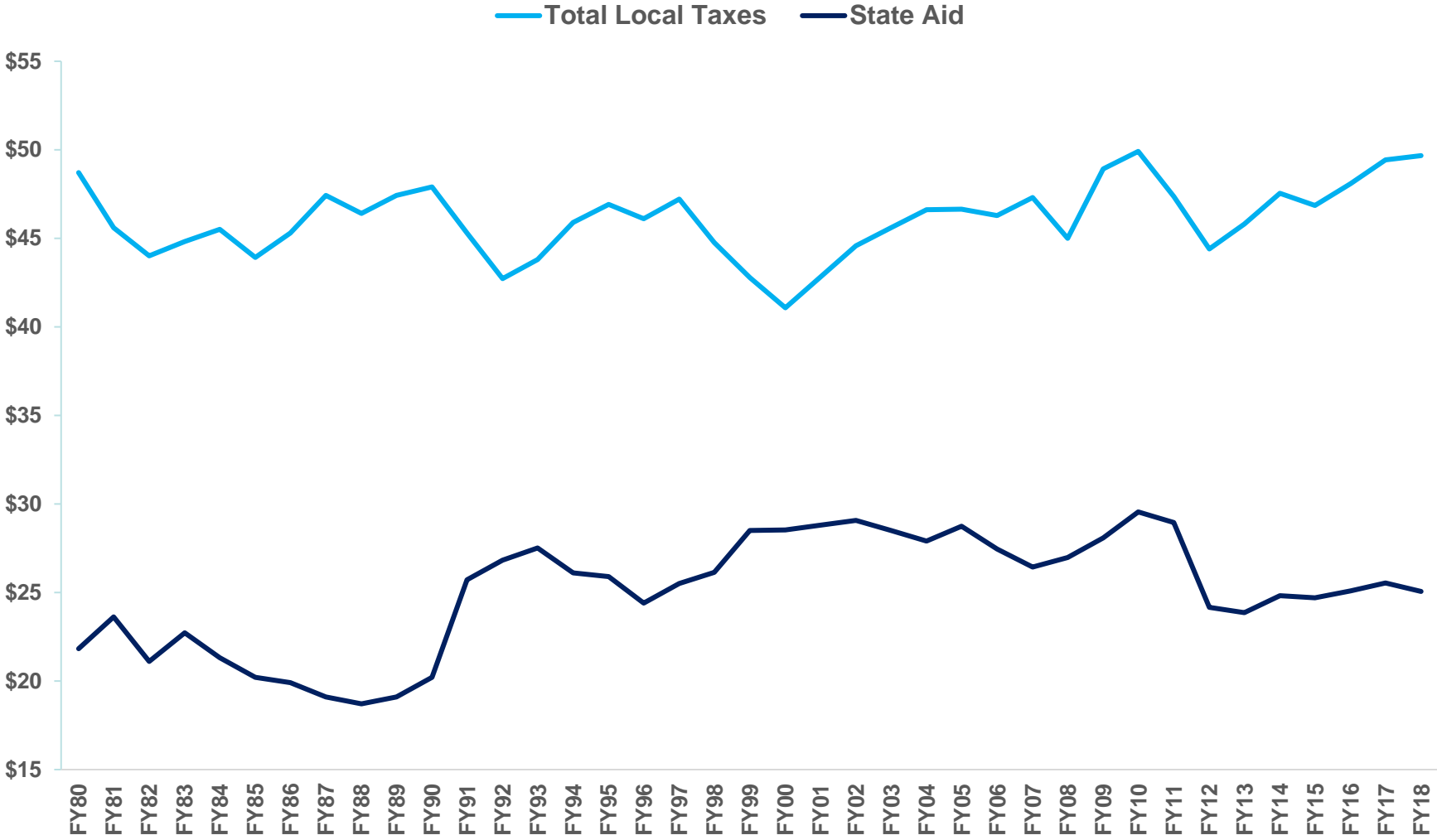
## States' Average

State:  
51.0%



# State Aid and Local Taxes Have Mirrored Each Other

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



# 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	\$3,569,700	\$574,306
Average General Fund Tax Levy	\$0.5672	\$1.0067
Average General Fund Tax Property Taxes Levied Per Pupil	\$19,668	\$5,726
Average Equalization Aid Per Pupil	\$0	\$4,392
Total General Fund Expenditures Per Pupil	\$21,457	\$11,357

Sources: 2019/20 Annual Financial Report and State Aid Certification, Nebraska Department of Education, 2019 Certificate of Taxes Levies, Nebraska Department of Revenue

# Differences in Per Pupil Costs

- Per Pupil Cost in FY 2021 - \$14,495
  - Ranges from:
    - \$10,860 in Bennington Public Schools (3,505 students)
    - \$31,893 in Sandhills Public Schools (90 students)
  - Largest districts:
    - OPS - \$14,407
    - LPS - \$13,386

# 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



# District Budgets are Limited

- Limits to budget growth – Basic Allowable Growth Rate of 1.5% 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%)

# 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 Nebraska continues to be heavily reliant on local resources, more than any other state in the country