

Good afternoon Chairman Groene and members of the Education Committee. My name is Renee Fry, and I'm the executive director of OpenSky Policy Institute.

I'm here to testify in support of LB 484.

We believe this is the best vehicle to develop a solution to our heavy reliance on property taxes to fund K-12 education, a challenge in education funding since long before TEEOSA was created. While TEEOSA initially had some success in reducing property taxes, changes to the formula that were made to reduce the state's funding obligation hindered meaningful property tax reduction. Recently, the spike in agricultural land valuation has further reduced the state's share of K-12 education. As a result, our heavy reliance on property taxes to fund education in Nebraska today looks eerily similar to when TEEOSA was first passed.

We cannot continue to rely on short-term tweaks to the formula in the hopes that long-term property tax relief will ensue. We believe that LB 484 will provide an important opportunity to re-evaluate our state's system of school finance in a comprehensive way.

This bill would serve a similar purpose to the first School Finance Review Commission, created in the late 1980s: to examine the state's school funding system and our reliance on property taxes to fund K-12 education. In the report issued by the original School Finance Review Commission, the commission found two major policy problems with the way Nebraska funded its public school system: that the system was too reliant on property taxes to fund K-12 education and that this system therefore did not ensure equity for taxpayers nor equity of education for students.

The TEEOSA formula was an effort to address these issues through components such as equalization aid as well as including income taxes as a district resource. As you can see in the handout provided, property taxes did go down as a share of the economy, hitting its lowest point in 1999.

Some might argue that this reduction in property taxes didn't last because schools have been overspending. However, as you can see in the handout, school spending as a share of the economy has been flat for the last 15 years. Furthermore, a report done by LFO in 2015 found that school-spending growth in our state over the last decade has been at its lowest level in 30 years – averaging 4.1% growth in general fund spending.

Instead, the lack of property tax relief has been the result of declining state support for K-12 education as shown in the third chart on the handout. This trend is partly the result of the Legislature's tendency to tweak the formula whenever the state has a projected budget shortfall, like now, or when the TEEOSA increase according to the formula is just more than the legislature wanted spend. One such change was capping the Allocated Income Tax, which sends income taxes paid by residents in a district back to that district. In 1996, it was capped at \$102 million, which by FY17 represented only 2.1% of income taxes paid in contrast to 20% as originally intended. Another example was during the Great Recession when we used ARRA funds to supplement K-12

education funding, but then didn't increase state dollars to replace the federal funds when they went away, instead choosing to change the formula during the 2011 session to reduce the state's share.

Recently, agricultural land valuations have increased dramatically, rising over 231% since 2007 compared to 31% for commercial and 19% for residential. This has led to a significant increase in resources for many districts and consequently a dramatic reduction over that same time period in the percentage of districts that are equalized, from 81% in FY09 to 31% in FY17.

As a result, our education funding system today is as highly reliant on property taxes as it was when the initial commission was prompted. At the time the commission was established, state aid to education was declining as a share of the economy. Likewise, the Appropriation Committee's preliminary budget would take K-12 funding to a historically low level as a share of the economy since the implementation of TEEOSA.

While TEEOSA doesn't seem to be working for rural agricultural property taxpayers, the state K-12 funding formula isn't working that well for urban districts either. The average levy of the most urban school districts is \$1.05 compared to \$0.59 in the most rural districts. Meanwhile, many urban schools are facing increased needs due to growing enrollment, increased poverty, and other challenges. And state aid isn't predictable or stable, creating budgeting uncertainty that property-rich districts don't have to worry about.

Our K-12 funding formula in Nebraska is complex and more than a quarter century old. While tweaks have been made along the way, the level of frustration about the formula from both rural and urban districts signifies that it is time for a new formula.

Nebraskans deeply value our public education system. We know that a strong K-12 education system expands economic opportunities for everyone and is foundational to the strength of our economy – today and into the future. Fundamentally, to preserve the quality education Nebraskans expect while also finally addressing the heavy reliance of property taxes in education funding, we need to increase state aid to education. However, figuring out how to raise and distribute those dollars in a manner that is fair to taxpayers but also allows equity in educational opportunity requires a longer-term review.

We support LB 484 because we believe that it is time for an opportunity to re-evaluate our state's system of school finance in a comprehensive way.

Thank you for your time. I'd be happy to answer any questions.